BANK OF MAURITIUS

Released on 13 June 2018

Minutes of the 47th Monetary Policy Committee Meeting held on 30 May 2018

The 47th meeting of the Monetary Policy Committee (MPC) was held on Wednesday 30 May 2018 at 10:00 hours at the Bank of Mauritius and was chaired by Mr. Yandraduth Googoolye, Governor.

Members present: Dr Renganaden Padayachy (First Deputy Governor); Mr. Mahendra Vikramdass Punchoo (Second Deputy Governor); Dr Streevarsen Narrainen; Mr Mohammad Mushtaq Namdarkhan; Professor Sanjeev Kumar Sobhee; Mr Lim Chan Kwong Lam Thuon Mine and Ms Marie Rosy Priscilla Pattoo (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 46th MPC meeting held on 28 February 2018.

Global economic and financial developments

1. **Global economic growth remains sustained.** The IMF, in its April 2018 World Economic Outlook (WEO), has maintained world growth forecast at 3.9 per cent for both 2018 and 2019, unchanged from its January 2018 forecasts. In the near to medium term, the growth momentum would be sustained in Emerging Market and Developing Economies (EMDEs), but would be somewhat moderate in advanced economies. Growth is expected to increase to 2.5 per cent in 2018 before receding to 2.2 per cent in 2019 in advanced economies. In EMDEs, growth is forecast to increase to 4.9 per cent in 2018 and further to 5.1 per cent in 2019.

2. **Survey indicators pointed to a slight pick-up in economic activity in April 2018, following a slowdown in March.** The J.P.Morgan Global All-Industry Output Index, a leading indicator for global output, recovered to 53.8 in April after falling to a 16-month low of 53.3 in March 2018, suggesting a rather robust start of the second quarter. Both the manufacturing and services sectors registered higher growth rates.

3. **Global inflation, which has so far remained somewhat muted, is expected to increase moderately in 2018, partly due to higher commodity prices and the gradual reduction in spare capacity.** The April 2018 WEO forecast consumer prices in advanced economies to rise from 1.7 per cent in 2017 to 2.0 per cent in 2018 and in EMDEs, from 4.3 per cent to 4.6 per cent.

4. **The decline in inventory arising from higher global demand and lower production by OPEC has pushed oil prices higher to a level seen in 2014.** Geopolitical tensions have also contributed to the higher prices. Increased tensions in the Middle East and lower output in Venezuela added further pressure on oil prices. The oil price of NYMEX WTI increased from an average of US$43.3 in 2016 to US$51.0 in 2017 and, further, to an average of US$64.7 between 2 January and 18 May 2018.

5. **Unfavourable supply conditions amid strong global demand have pushed the FAO Food Price Index higher in April 2018.** The index increased from 171.4 in February 2018 to 173.5 in April 2018, or by 1.2 per cent. Overall, the index has remained on an upward trend since the beginning of the year, driven by higher prices of all of its components, except for sugar prices.

6. **The US Federal Reserve System pursued its interest rate normalisation process and raised its target range for the federal funds rate by 25 basis points to 1.50-1.75 per cent in March 2018.** The improved economic climate accompanied by fiscal measures would contribute to increase inflationary pressures, which would warrant further tightening of the US monetary policy stance. It is expected that the US Fed would raise its policy rate at least two times this year. The ECB is not expected to tighten its policy stance in 2018 while expectation of a rate hike by the Bank of England would be happening towards the end of the year.

Domestic economic developments

7. **The domestic economy's growth momentum kept pace and benefitted from positive contributions from most of the sectors.** Real GDP grew by 3.3 per cent in 2017Q4. For the year 2017 as a whole, real GDP expanded by 3.5 per cent. Gross fixed capital formation growth stood at 4.1 per cent in 2017Q4, while total consumption expenditure was up by 2.2 per cent. The services sector continued to outperform the other sectors as the most important contributor to economic expansion in 2017Q4. Statistics Mauritius expects GDP growth rate at market prices to pick up to 3.9 per cent in 2018.

8. **Since the last MPC meeting, domestic inflation has risen due mostly to adverse climatic conditions.** Headline inflation accelerated to 5.0 per cent in April 2018, 1.0 percentage point higher than in January 2018 while y-o-y inflation dropped from 6.2 per cent to 3.7 per cent, due to base effects. Underlying inflationary measures have not pointed to any upside price pressures, and were contained within tight ranges, both on a 12-month average and y-o-y basis.

9. **Survey as well as major leading activity indicators have pointed towards brighter business and consumer optimism**. The MCCI Business Confidence Index continued its uptrend and highlighted a sustained increase in the level of entrepreneurs' confidence, while the TNS Analysis Consumer Confidence Index picked up for the second consecutive quarter in 2018Q1. The abridged financial statements of some major companies listed on the Stock Exchange of Mauritius have pointed to an increase in profits before tax in 2018Q1 compared to 2017Q1.

10. **The labour market conditions further strengthened in 2017, sending the unemployment rate to a 10-year low and with employment creation mostly in the services sector.** The unemployment rate dropped from 7.3 per cent in 2016 to 7.1 per cent, reflecting the rise in employment of 6,500 which more than offset the increase in the labour force of 5,900.

11. **The wage rate index maintained its uptrend and drew support from both of its components, namely the public and private sectors.** The index rose by 4.7 points between 2016Q4 and 2017Q4, resulting predominantly from increased wages in information and communication, financial and insurance activities, education, manufacturing, wholesale and retail trade and public administration sectors. Compensation of employees' growth has continuously exceeded labour productivity growth, resulting in sustained increases in unit labour cost. In 2017, labour productivity declined by 2.4 per cent, against growth of 3.4 per cent in 2016.

12. **The deterioration in the current account deficit mostly reflected falling export receipts and rising import bill.** The external current account deficit nearly doubled from 4.4 per cent of GDP in 2016Q4 to 8.5 per cent of GDP in 2017Q4. Deteriorating terms of trade and higher imports destined for the implementation of major infrastructure projects would weigh on the current account in 2018. The services account is expected to post a higher surplus, benefitting principally from the positive momentum in the tourism sector. The income account is also forecast to improve as a result of higher projected net income flows from abroad. The capital and financial account, inclusive of reserve assets, is estimated to record net inflows, with the country forecast to post a balance of payments surplus of about Rs22 billion in 2018.

13. **The Bank pursued its efforts to reduce the level of excess liquidity in the banking system through the issue of Bank of Mauritius (BoM) securities and sterilisation of proceeds from foreign exchange intervention.** Accordingly, outstanding BoM securities increased from Rs81 billion as at end-February 2018 to Rs92 billion as at 18 May 2018. The decline in excess reserves led to an increase in the average overnight interbank interest rate, from 2.30 per cent in February 2018 to 3.34 per cent in April 2018. Average rupee excess reserves, which stood at Rs9.3 billion for period 29 November 2017 to 28 February 2018 decreased to Rs7.6 billion for period 1 March to 16 May 2018. It should be noted that as from 15 March 2018, the Bank has been issuing the 4.25% 3-Year Golden Jubilee Bond to retail customers and Non-Governmental Organisations.

14. **Broad money supply growth remained expansionary, highlighting the accommodative policy stance.** The annual growth rate of Broad Money Liabilities declined from 9.3 per cent in December 2017 to 9.1 per cent in March 2018. Bank credit to the private sector has recovered, backed by corporate credit growth and growing higher than nominal GDP growth. Y-o-y, bank credit to the private sector (excluding credit to the Global Business Companies) grew by 8.0 per cent in March 2018, unchanged from December 2017.

15. **The banking sector has remained sound and well-capitalised while asset quality of banks has improved.** The aggregate capital adequacy ratio remained almost unchanged at 17.6 per cent as at end-March 2018. The ratio of non-performing loans (NPLs) to total loans fell to 6.2 per cent as at end-December 2017, from 6.8 per cent as at end-December 2016. Banks' coverage of

NPLs, measured by the ratio of specific provisions to impaired credit, stood comfortably at 49.7 per cent as at end-December 2017, up from 48.8 per cent a year earlier.

Staff economic outlook

16. **Transitory supply shocks to the CPI and the recent hike in the price of domestic petroleum products have led Bank staff to revise up the inflation outcome for 2018.** Thus, headline inflation is now projected at about 4.2 per cent in 2018 compared to the previous forecast of 4.0 per cent. Other things being equal, headline inflation will drop to around 3.8 per cent in 2019. The rupee exchange rate dynamics are expected to contribute mildly to domestic inflationary impulses, amid the weak exchange rate pass-through to CPI. The decline in spare capacity over the projection horizon is unlikely to add to inflationary pressures.

17. **Bank staff have maintained real GDP growth at market prices at 4.0 per cent in 2018 and in 2019** against an unchanged economic growth forecast for Mauritius' main trading partner countries and unchanged assumptions regarding fiscal stimulus and aggregate demand dynamics. Expected acceleration in the implementation of massive public investment projects, commendable performance of a number of sectors, elevated business and consumer confidence levels, and accommodative monetary conditions, amongst others, are projected to bolster the domestic growth momentum.

Monetary Policy Decision

18. **The MPC noted that global growth momentum would remain sustained but still fraught with uncertainty.** Risks to the growth outlook remain broadly balanced in 2018 but somewhat tilted to the downside thereafter. Inward-looking policies arising from UK's exit from the European Union; protectionist policies in the US; fears of a trade war between the US and China; and geopolitical tensions, especially in East Asia and the Middle East, could potentially fuel economic uncertainty. Market turbulence may delay the tightening of financial conditions and encourage the build-up of financial vulnerabilities in the search for yield. A quicker tightening of financial conditions would stifle growth performance.

19. **Members reviewed domestic economic conditions and took note of the rising business and consumer confidence.** They also observed that most sectors are likely to record positive growth in 2018. Major macroeconomic indicators are showing signs of improvement. Overall, they viewed that conditions were well in place to ensure a higher growth performance in 2018 but maintained that the Committee would remain alert to any adverse developments. Members remarked the relative stability of CORE2 inflation, which was well contained, while analysing inflationary developments.

20. **The MPC took note that short-term money market rates have been hovering close to the Key Repo Rate since January 2018.** The disconnect between the policy rate and short-term money market rates has been eliminated.

Voting Pattern

21. At the conclusion of the discussions, the Committee unanimously voted to maintain the Key Repo Rate at 3.50 per cent per annum with a view to continuing to support economic growth.

22. The Committee will continue to exercise vigilance should there be a resurgence of inflationary pressures in the economy and stands ready to meet in between its regular meetings, if the need arises.

23. The next MPC meeting is scheduled on 22 August 2018.

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 30 May 2018, the last available data on national accounts, employment and external trade were for 2017Q4. The last data available on Consumer Price Index (CPI) and inflation were for April 2018.

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.