BANK OF MAURITIUS

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Minutes of the 57th Monetary Policy Committee Meeting held on 23 September 2020

The 57th meeting of the Monetary Policy Committee (MPC) was held on Wednesday 23 September 2020 at 10:30 hours at the Bank of Mauritius and was chaired by Governor Harvesh Kumar Seegolam. The meeting was attended by all the members: 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; Professor Sanjeev Kumar Sobhee; and Mrs. Christine Marie Isabelle Sauzier (External Members).

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 56th MPC meeting held on 8 July 2020. The MPC took note of staff's macroeconomic projections and assessed risks to the domestic economic outlook.

Global economic developments

1. **Global economic performance remained under the spell of uncertainty posed by the COVID-19 pandemic.** The most recent growth outlook released by the OECD points to a global GDP contraction of 4.5 per cent in 2020, albeit an upgrade from the 6.0 per cent contraction predicted in June 2020. The upward revision largely emanated from better performances for China, US and the euro area, partially offset by downgrades for India, South Africa, Argentina and Mexico.

2. **Purchasing Managers' Indices (PMIs), key leading indicators of world economic activity, continued to recover since May 2020, supported by a gradual reopening of some economies.** The J.P. Morgan's Composite PMI rose from 50.8 in July 2020, the first time above the 50.0 neutral level since January 2020, to 52.4 in August 2020, underpinned largely by a rebound in services PMI. Easing of lockdown restrictions in some countries by end-April 2020 led to an increase in new orders.

3. **Crude oil prices rose for the fourth consecutive month in August 2020, driven by improving global oil consumption amid reduced oil supply.** Brent crude oil prices averaged US$45 per barrel in August 2020, up from US$43.2 per barrel in the previous month. NYMEX WTI increased from US$40.8 per barrel in July 2020 to US$42.4 per barrel in August 2020. The US Energy Information Administration forecasts oil market balances to continue tightening for the remainder of 2020 as a result of continued demand recovery, restrained production from members of the Organisation of the Petroleum Exporting Countries and partner countries, and price-related declines in production from the US.

4. **Food prices rose in August 2020 as global demand strengthened and supply chains began to recover from COVID-19 related restrictions.** The FAO Food Price Index averaged 96.1 in August 2020, up from 94.3 in July 2020, reflecting higher values of almost all sub-indices, with price increases more pronounced for sugar and vegetable oils. The International Grains Council's Grains and Oilseed Index stood at 200 points in August 2020, up from 195 points in July 2020, driven by increases in all sub-indices, with soyabeans depicting the highest gain.

5. **Global inflationary pressures remain contained amid low commodity prices, muted wage pressures and weak aggregate demand.** In the euro area, inflation fell to -0.2 per cent in August 2020, from 0.4 per cent in July 2020, mainly driven by falling energy prices. US inflation increased from 0.6 per cent in June 2020 to 1.0 per cent in July 2020. In the UK, inflation ticked up from 0.8 per cent to 1.1 per cent, largely due to a recovery in petrol and clothing prices. Inflation in China rose from 2.5 per cent to 2.7 per cent, due to higher specific food prices. Inflation in India edged up from 5.1 per cent to 5.3 per cent, led by higher prices of vegetables, pulses, meat and fish.

6. **Central banks have responded with decisive policy packages that are designed to be targeted and proportionate to the unprecedented scale of the crisis.** These measures have supported liquidity and funding conditions, averted the most adverse feedback loops between the real economy and financial markets, and shored up confidence. Since January 2020, most central banks in advanced and emerging economies have lowered their interest rates and so far, 185 rate cuts have been registered, with 20 rate cuts since the previous MPC meeting.

Domestic economic developments

7. **Inflationary pressures in the domestic economy remained broadly contained**. Y-o-y inflation declined from 2.8 per cent in May 2020 to 1.7 per cent in June 2020 and further to 1.5 per cent in July and August, mostly reflecting the downward adjustment in the prices of fresh vegetables and the reduction in mortgage interest. In contrast, 12-month average inflation ticked up from 1.7 per cent in May 2020 to 1.8 per cent in June and remained flat till August. Underlying inflationary pressures remained rather subdued.

8. **Labour market conditions deteriorated markedly in May 2020 as compared to 2020Q1, mainly reflecting redundancies resulting from the challenging economic conditions amidst the COVID-19 pandemic.** The unemployment rate rose from 7.2 per cent in 2020Q1 to 10.2 per cent in May 2020. The labour market outlook remains bleak as economic activity in main employment sectors continue to be weak, reflecting subdued domestic and external demand.

9. **Preliminary estimates of the balance of payments for 2020Q2 have indicated a higher current account deficit relative to 2019Q2, stemming from an unprecedented deficit in the services account and a lower surplus in the primary income account**. The current account deficit was estimated at 15.1 per cent of GDP in 2020Q2 compared to 3.9 per cent in 2019Q2. The external sector outlook for 2020 remains under the spell of substantial contraction in services trade through transport and travel restrictions as well as lower surplus on the income account, impacted by record low international interest

rates and weak economic activity abroad. As a ratio to GDP, the current account deficit is projected to widen from 5.5 per cent in 2019 to 14.0 per cent in 2020.

10. **Since the July 2020 MPC meeting, open market operations conducted by the Bank were mainly directed towards foreign exchange interventions and swap transactions.** Long-term Bank of Mauritius bonds were issued to mop up excess liquidity, resulting in an increase in yields. The Bank continued to support the market through the Special Lines of Credit put in place for on-lending to economic operators, including Small and Medium Enterprises, adversely impacted by the pandemic.

11. **Based on the nominal effective exchange rate, as determined by MERI1, the rupee weakened by 0.6 per cent m-o-m in August 2020 compared to an average depreciation of 1.3 per cent over the period January to July 2020.** The real effective exchange rate of the rupee was undermined for five consecutive months, suggesting that domestic inflation fell short of that of our key trading partners. The rupee depreciated by 3.9 per cent m-o-m in July 2020 compared to an average depreciation of 1.6 per cent since March 2020.

12. **The annual pace of growth in broad money supply remained solid, recording a double digit figure of 12.3 per cent in July 2020 and indicating the availability of ample liquidity in the banking system.** The y-o-y growth in bank loans to the private sector gathered momentum since the last MPC meeting, principally backed by corporate borrowings. The annual growth rose to 5.1 per cent in July 2020, the highest level recorded since May 2019, from a trough of 4.1 per cent in May 2020.

Staff economic outlook

13. **Inflationary impulses will most likely remain in check until the end of 2020.** Low demand and supply side pressures are projected to mitigate the impact on prices. On the external front, global inflationary pressures continue to be limited on the back of low commodity prices, subdued wage pressures and weak aggregate demand. Conditional upon the absence of major supply-side shocks, headline inflation is projected at around 2.5 per cent in 2020. For 2021, inflationary developments will be dominated by subdued demand-side pressures and transitory supply-side pressures. Barring exogenous shocks, headline inflation is projected at around 2.5 per cent, in line with benign economic conditions, both globally and at home.

14. **The economic damage linked to the outbreak and proliferation of the COVID-19 pandemic has substantially derailed the domestic growth trajectory.** Our key trading partner countries are bearing the brunt of a second wave of the pandemic, thus impacting adversely on the domestic export performance. In Mauritius, although the worst-hit sectors are accommodation and food service activities and manufacturing, other sectors would also take a toll through the second-round impact, albeit with varying magnitude. Conditional on a set of assumptions, the initial baseline projection of -12.5 per cent contraction of real GDP for 2020 is now being revised to -13 per cent. For 2021, real GDP growth is expected at about 7.5 per cent, thanks to a partial recovery across specific sectors, a pick-up in consumption spending pattern and a gradual improvement in external demand.

Monetary Policy Decision

15. **The MPC perceived that domestic economic activity had started to recover from the lows of 2020Q2 following the lifting of the lockdown in June**. However, it conceded that the uncertainty characterising the economic outlook was quite strong and warranted caution. The MPC also viewed that risks to the inflation outlook remained on the downside in the absence of exogenous shocks. The low inflation environment was deemed to support economic growth and development.

16. **The MPC agreed that the major challenge, at this stage, remained the response to the economic and financial impact of the COVID-19 pandemic.** Accordingly, the principal concern for monetary policy ought to remain focused on supporting the recovery of the economy by keeping an accommodative monetary policy stance as long as it is necessary to revive growth. The MPC also noted that it is crucial to keep some space for any further monetary policy action should the need arise. The MPC reviewed the various schemes put forth by the authorities to support the economic recovery process and that interest rates are at their lowest historically.

Voting Pattern

17. **At the conclusion of the discussions, the Committee unanimously voted to maintain the Key Repo Rate unchanged at 1.85 per cent per annum.**

18. **The next MPC meeting is scheduled on Wednesday 25 November 2020.**

19. **The MPC maintains its vigilance in monitoring the economic situation and stands ready to meet in between its regular meetings, if the need arises**.

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 23 September 2020, the last available data on national accounts were for 2020Q1 while data pertaining to external trade and balance of payments were for 2020Q2. The last data available on Consumer Price Index (CPI) and inflation were for August 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.