



BANK OF MAURITIUS

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Inflation Report – October 2012

In compliance with section 33(2) of the Bank of Mauritius Act 2004, the Bank is today releasing the October 2012 Inflation Report. The Report reviews developments underpinning the monetary policy stance of the Bank and provides an outlook for the economy.

Since the publication of the April 2012 Inflation Report, the global economy has slowed, mainly as a result of the intensification of the euro area crisis and persisting public debt concerns in major advanced economies. Despite financial conditions in major markets have eased lately following policy actions by the ECB and the US Federal Reserve, world growth is widely forecast to fall short of its long-term trend rate in 2012.

Growing slack in advanced and emerging economies has reduced global inflationary pressures and allowed a number of central banks in advanced and emerging economies to ease monetary conditions to support growth. However, the recent increases in global food and energy prices have exerted upside pressures on the global inflation outlook.

The domestic economy has held up relatively well to the soft external economic conditions although the growth momentum has slowed. Given muted business confidence and household consumption domestically, the output gap is assessed to have remained negative in 2012Q2, with the economy operating below trend. Taking into consideration the precarious global economic backdrop and the difficulties faced by major sectors, the Bank's central growth forecast for 2012 has been revised down to 3.3 per cent, from an earlier estimate of 3.8 per cent.

Since the start of 2012, headline inflation has declined steadily to 4.6 per cent in August 2012 and y-o-y inflation has trended down to 3.7 per cent. While underlying core measures of inflation have indicated a moderation in inflationary pressures, upside risks to the domestic inflation outlook have risen, partly reflecting higher world food and energy prices that may eventually be factored in the domestic price structure. Recently, a number of domestic factors have also contributed to raising upside risks to inflation, notably developments in the rupee exchange rate and, effective January 2013, the compensation for the cost of living across the economy and the salary increases in the public sector.

The Report is available in PDF format on the website of the Bank at <https://www.bom.mu> under the menu item **Research and Publications/Inflation Report**.

Bank of Mauritius
31 October 2012