



**BANK OF MAURITIUS**

**Post – MPC Press Conference**

13 September 2011

## International Economic Environment

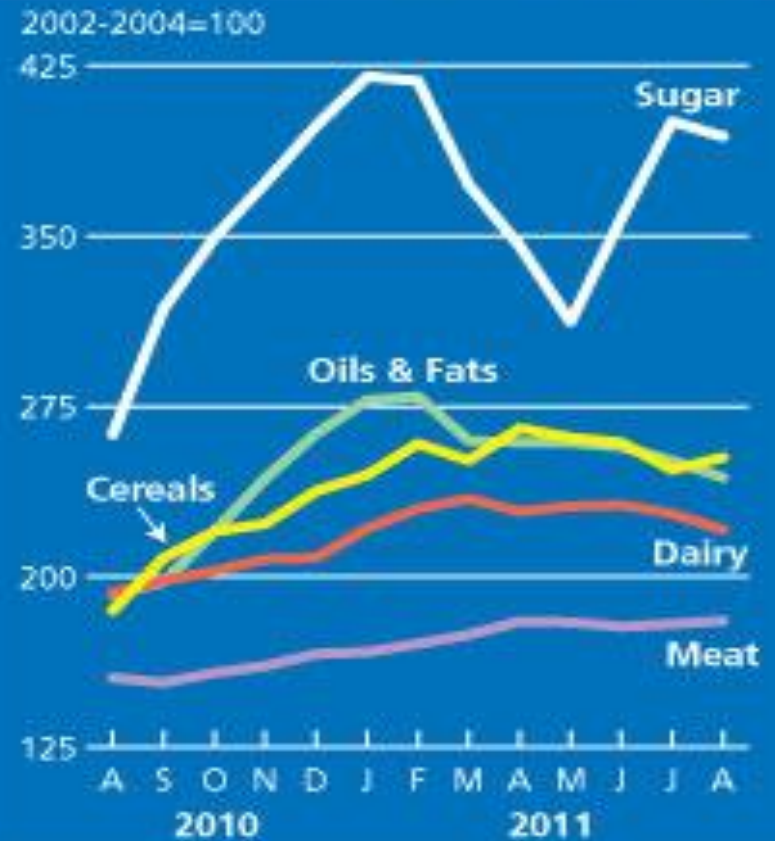
- Global economic activity is slowing down and downside risks have increased again
- PMI Survey Data - August saw growth of the global economy ease to its weakest pace since the recovery began in August 2009.
- Growth in large emerging economies also moderating
- Heightened concerns about fiscal and financial problems in the Euro area
- Weak Labour market and vulnerability of the US economy
- Austerity measures by many Governments

# Food Prices (FAO Database)

FAO Food Price Index



Food Commodity Price Indices



# Growth Projections

	JP Morgan			Difference between January and September
	January 2011	June 2011	September 2011	
Global	3.4	3.1	2.6	0.8 ↓
Developed markets	2.5	1.9	1.4	1.1 ↓
Emerging Markets	5.9	6.1	5.7	0.2 ↓
US	3.3	2.4	1.4	1.9 ↓
Euro area	1.7	2.1	1.6	0.1 ↓
UK	2.5	1.7	1.0	1.5 ↓

# Growth Projections for 2011

	JP Morgan		Difference
	June 2011	September 2011	
<b>US</b>	2.4	1.4	<b>1.0</b> ↓
<b>Euro area</b>	2.1	1.6	<b>0.5</b> ↓
<b>UK</b>	1.7	1.0	<b>0.7</b> ↓
<b>South Africa</b>	3.7	3.3	<b>0.4</b> ↓
<b>India</b>	7.9	7.6	<b>0.3</b> ↓
	Staff forecast		
	June 2011	September 2011	
<b>Mauritius</b>	4.6	4.4	<b>0.2</b> ↓

# Central Bank Watch

	Latest		Current interest rate (%)	Last change in Policy Rate	Expectations - Policy Rate
	GDP Growth (%)	Inflation (%)			
<b>US</b>	1.0	3.6 (Jul)	0.125	Cut in Dec 2008	On hold
<b>UK</b>	0.2	4.4 (Jul)	0.50	Cut in March 2009	On hold
<b>Euro zone</b>	0.2	2.5 (Aug)	1.50	Hike in July 2011	Hike in Q4 2012
<b>Canada</b>	-0.1	2.7 (Jul)	1.00	Hike in Sep 2010	Hike in Q1 2012
<b>Korea</b>	0.8	5.3 (Aug)	3.25	Hike in June 2011	Hike in Q4 2011
<b>Australia</b>	1.2	3.6 (Q2)	4.75	Hike in Nov 2010	Hike in Q1 2012
<b>China</b>	9.7	6.5 (Jul)	6.56	Hike in July 2011	Hike in Q4 2012
<b>India</b>	7.7	8.4 (Jul)	8.00	Hike in July 2011	Hike in Sep 2011
<b>Turkey</b>	1.3	6.7 (Aug)	5.75	Cur in August 2011	Hike in Oct 2012
<b>Brazil</b>	0.8	7.2 (Aug)	12.00	Cut in Aug 2011	Cut in Oct 2011
<b>Thailand</b>	-0.2	4.3 (Aug)	3.50	Hike in Aug 2011	Hike in Q2 2012
<b>South Africa</b>	1.3	5.3 (Jul)	5.50	Cut in Nov 2010	Cut in Q4 2011



## Background to the September 2011 MPC Decision

- At the meeting of September 2010, the MPC members unanimously decided to lower the Key Repo Rate (KRR) by 100 basis points because the economy was under much strain and business sentiment was subdued.
- The substantial monetary easing was expected to give further support to deleveraging and restructuring of enterprises with a view to enhancing their overall productivity and external competitiveness.
- The monetary policy stance was adjusted in March 2011 as the balance of risks has tilted towards the inflation outlook as the upside risks have increased. Against the backdrop of the global economic recovery, the output gap was expected to close.

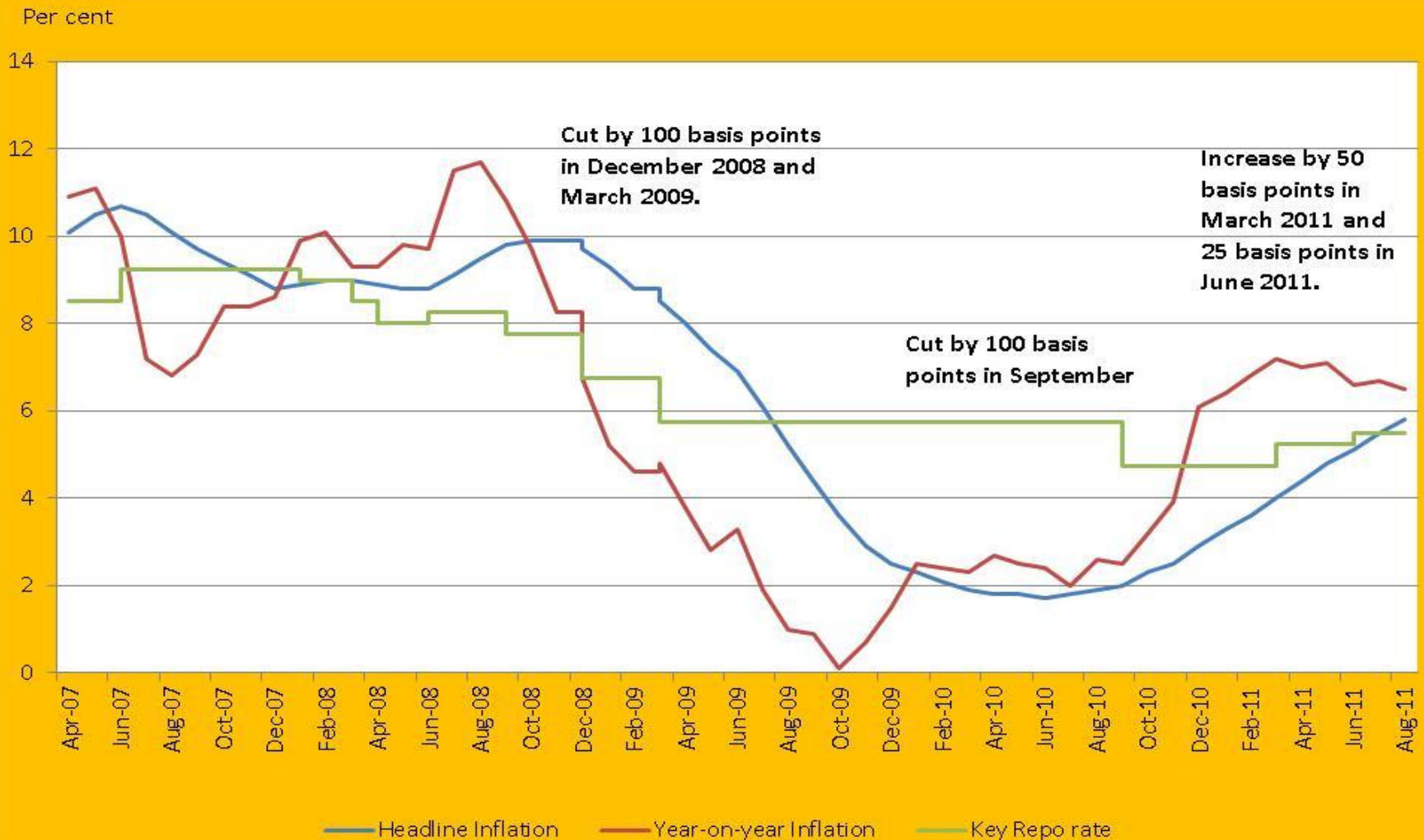
- With the increase in the repo rate by 50 basis points in March, process of normalising the KRR was started to anchor inflation expectations and prevent rising inflation from generating second-round effects.
- At the June 2011 MPC meeting, the normalisation process was maintained and the KRR was raised by 25 basis points.



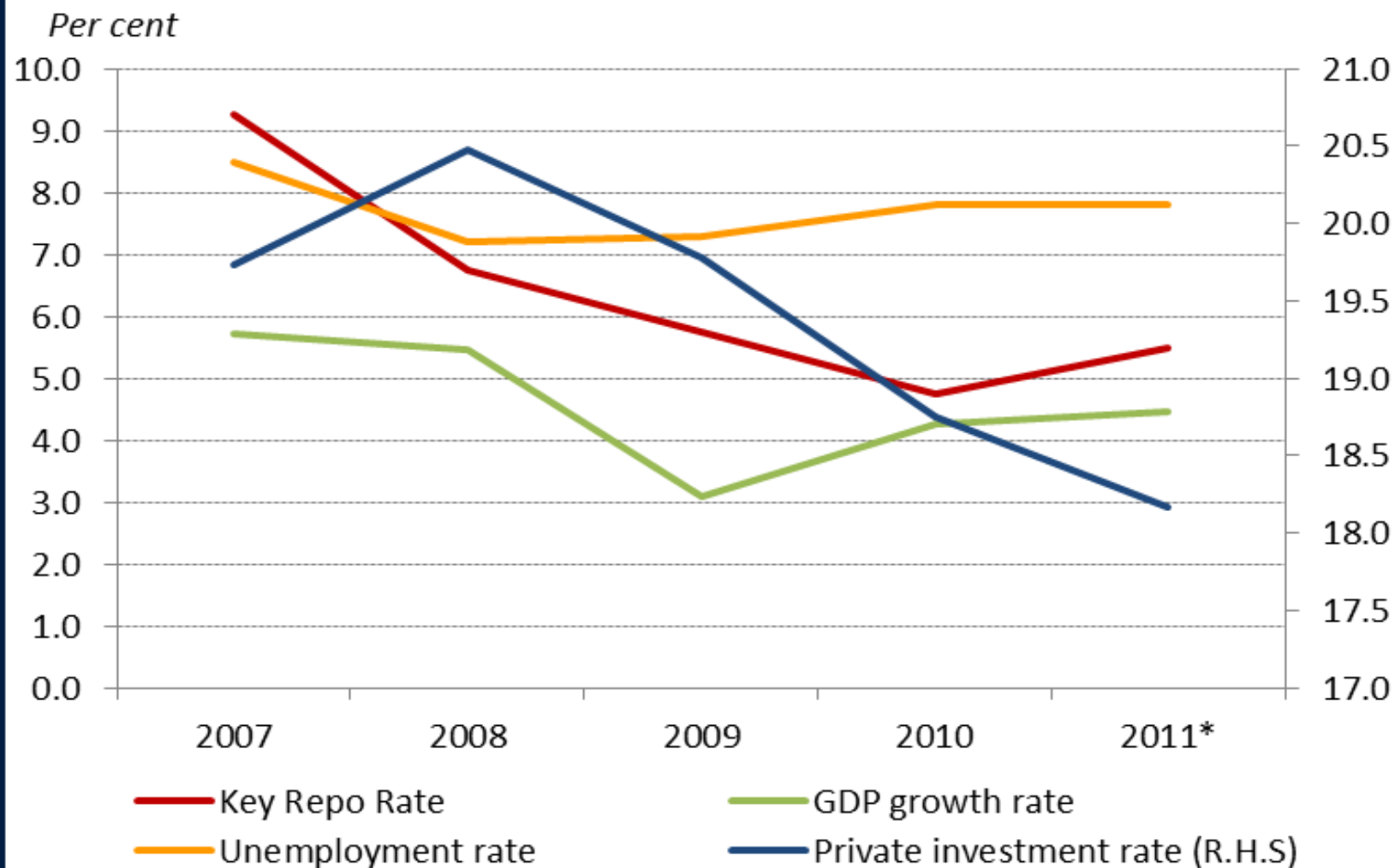
## MPC Decision 12 September 2011

- Unanimous Decision to keep KRR unchanged at 5.50 per cent
- Slower than expected global economic recovery
- Growth forecasts for 2011 slightly downgraded to 4.4 %, from 4.6 %
- Headline inflation expected to remain strong until end of year. It is expected to increase from 5.8% in Aug-11 to 6.6% in Dec-11.
- Year-on-year inflation is estimated to decline from 6.5% in Aug-11 to 5.1 % in Dec-11, largely due to base effects.
- These forecasts are largely conditional on no policy change assumption.

# Changes in the Key Repo rate

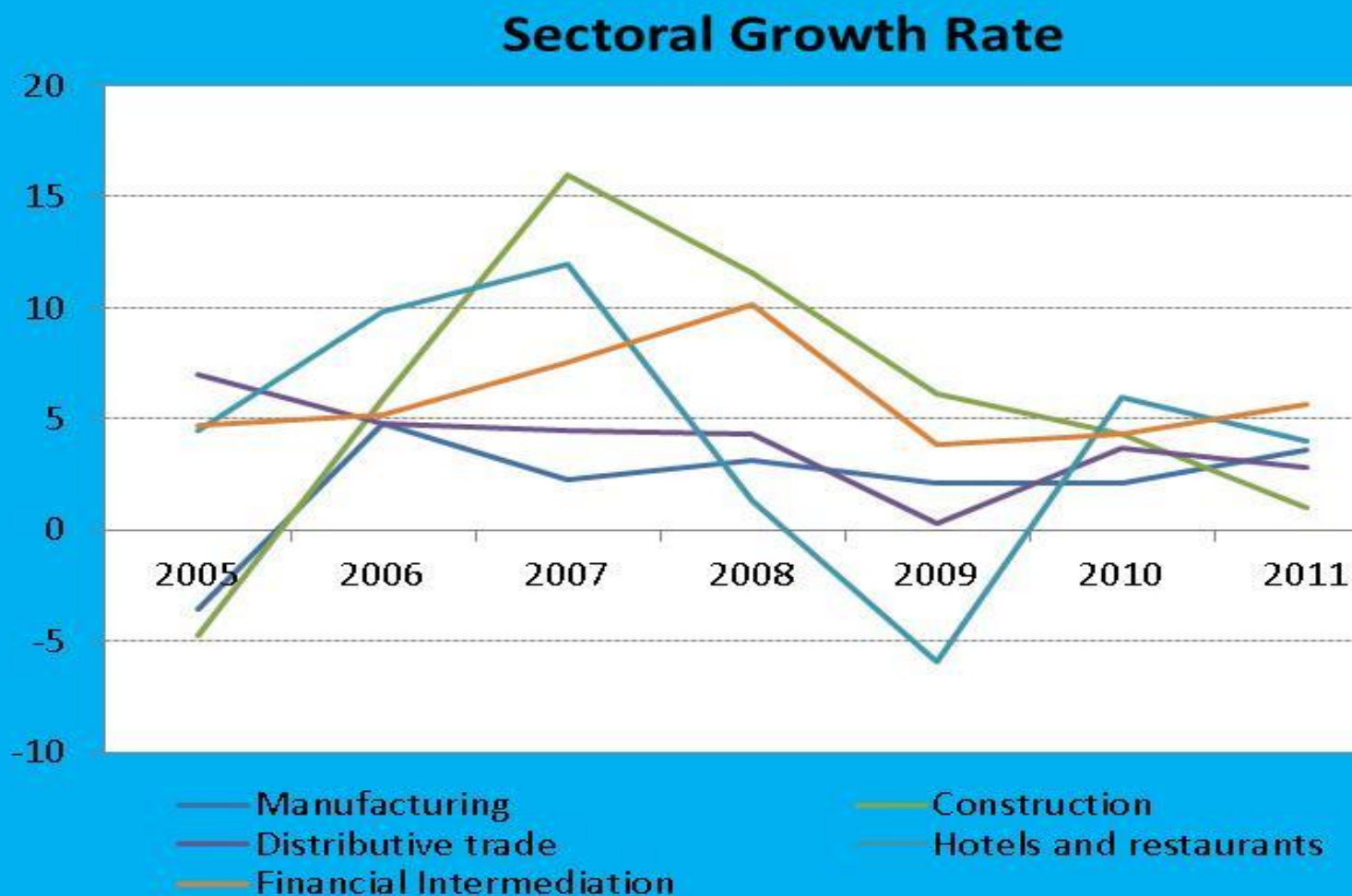


## Evolution of Key Repo Rate and Selected Indicators

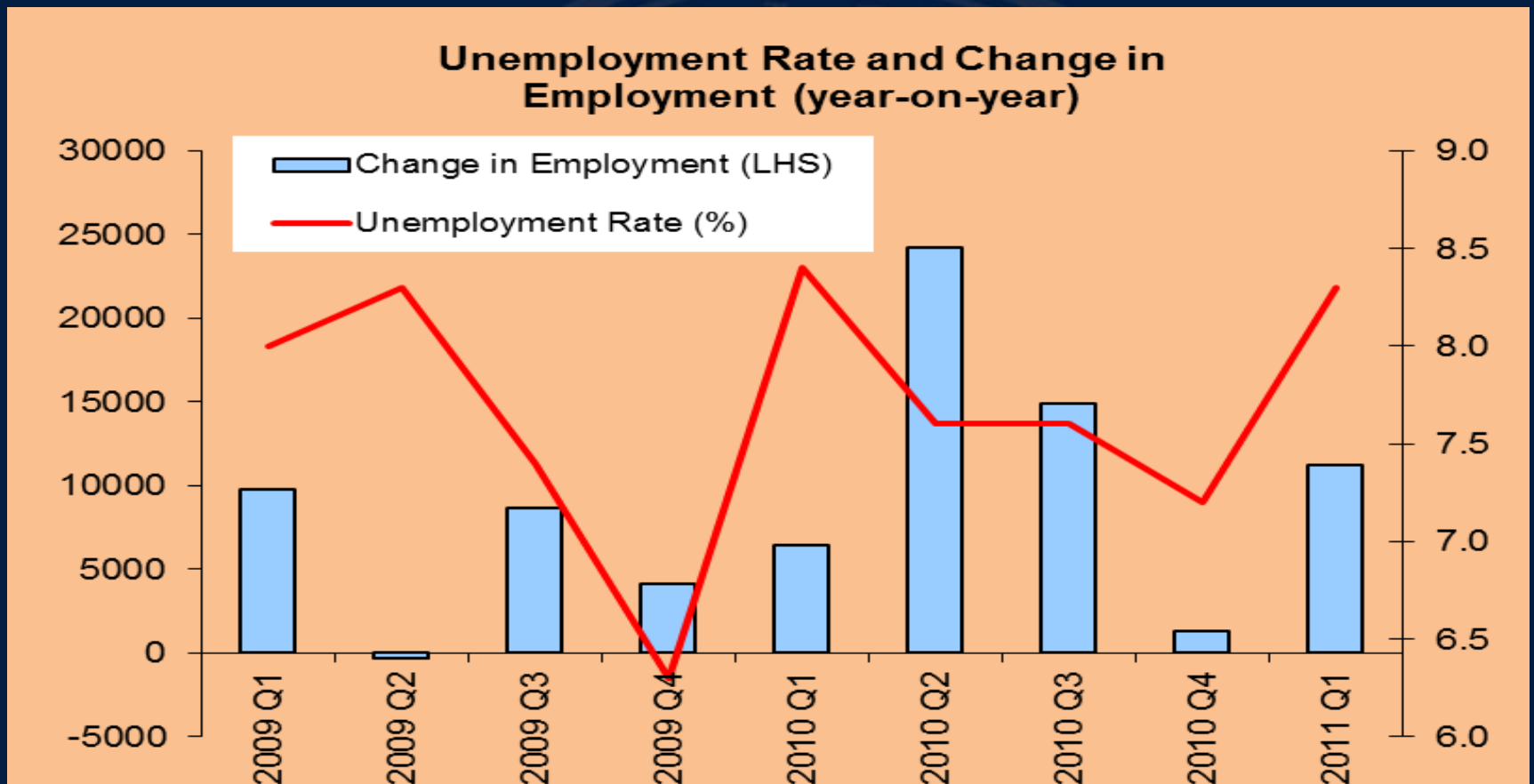


# Domestic Economic Developments

## Sectoral Growth Rates (y-o-y)



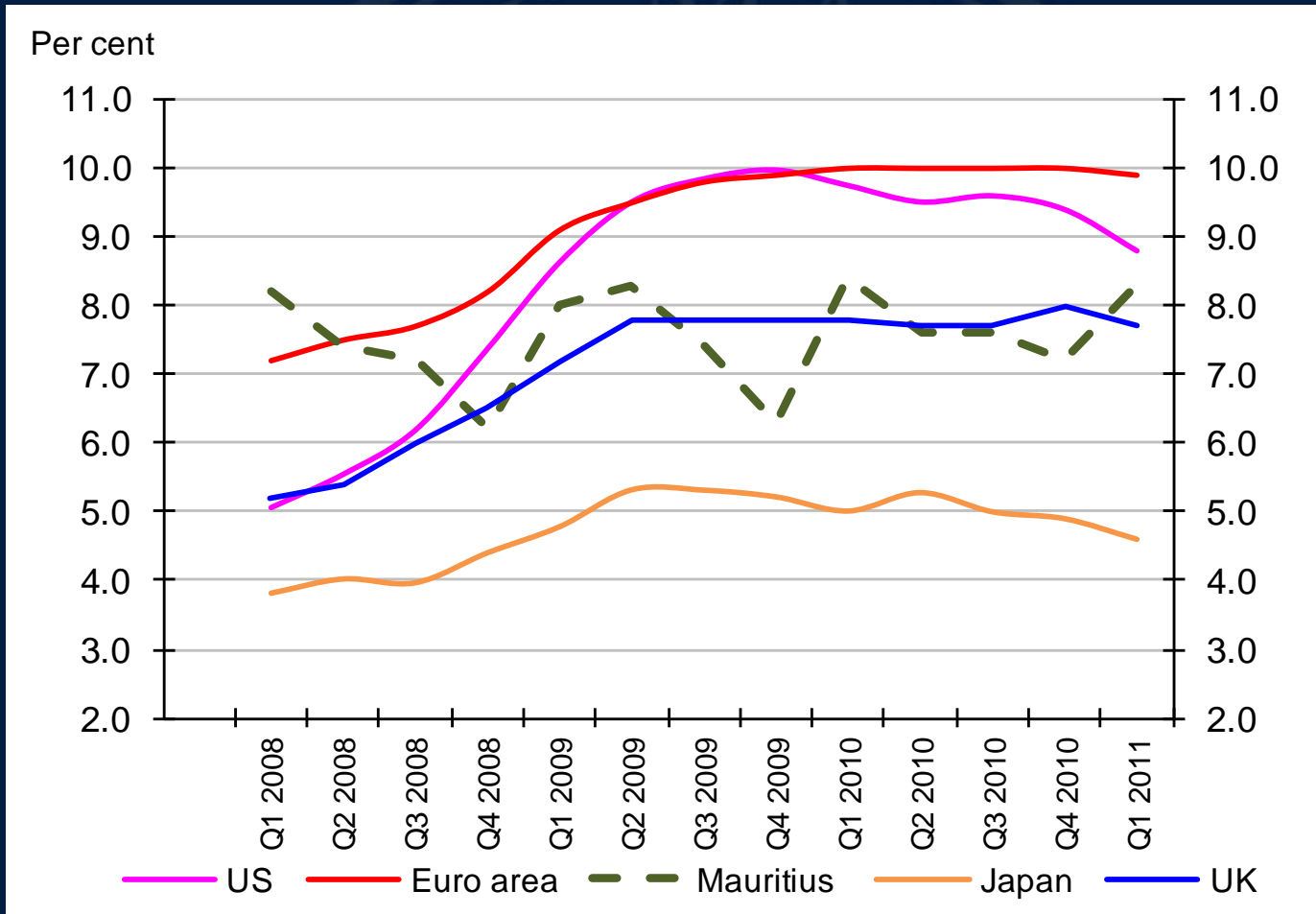
# Domestic Labour Market



	2010Q3	2010Q4	2011Q1
Unemployment rate (%)	7.6	7.2	8.3
Unemployment rate SA (%)	7.8	8.1	7.7

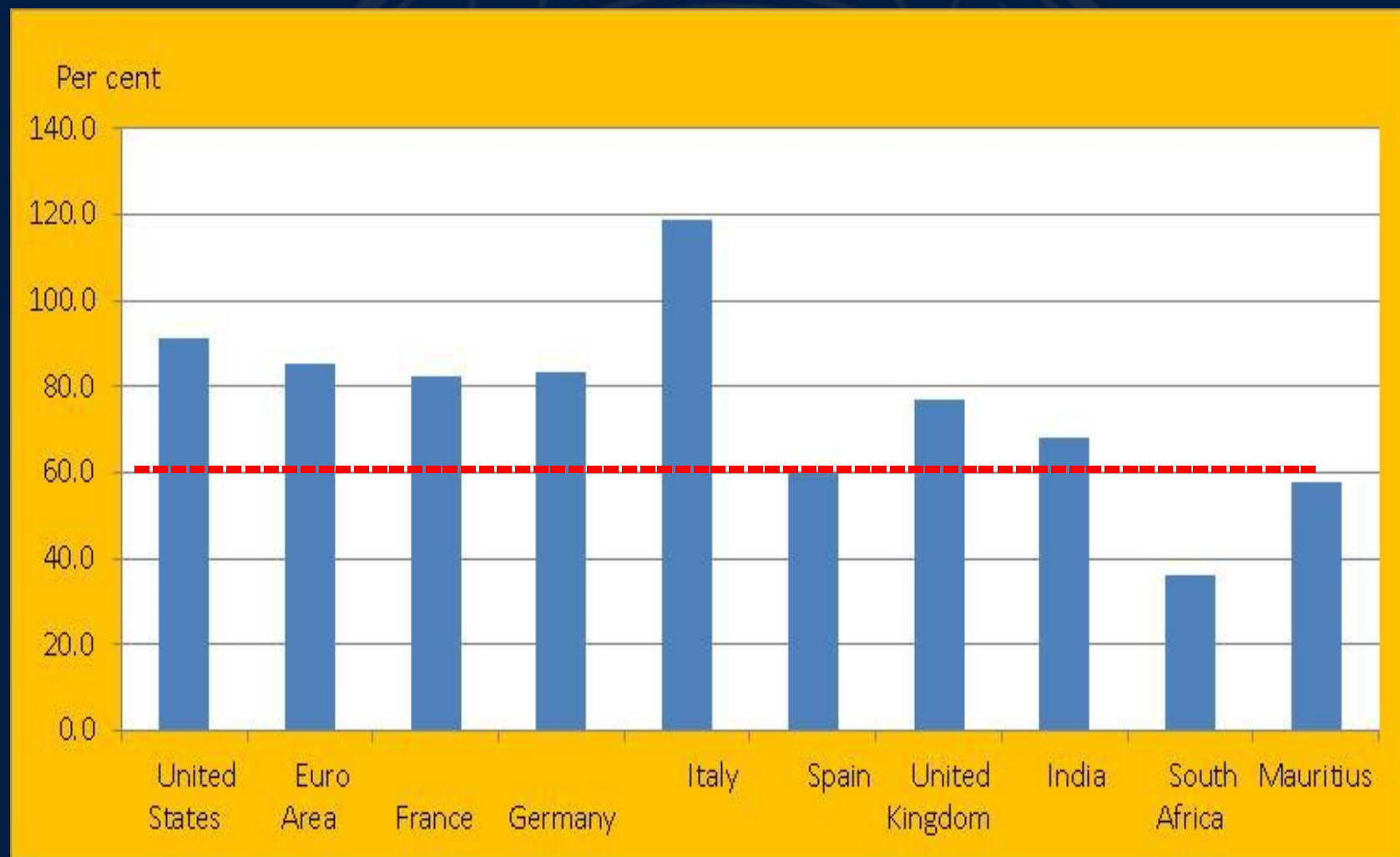


# Global Unemployment



Sources: JP Morgan and Trading Economics

# Government Gross Debt as a percentage of GDP



## External Trade

<b>Nominal Growth Rate (%)</b>	<b>Jan-Jun 2011 relative to Jan-Jun 2010</b>	<b>2010 relative to 2009</b>	<b>2010 relative to 2008</b>
Exports	+15.0	+12.8	+2.3
Imports	+10.6	+14.3	+2.4

# Tourist arrivals by country

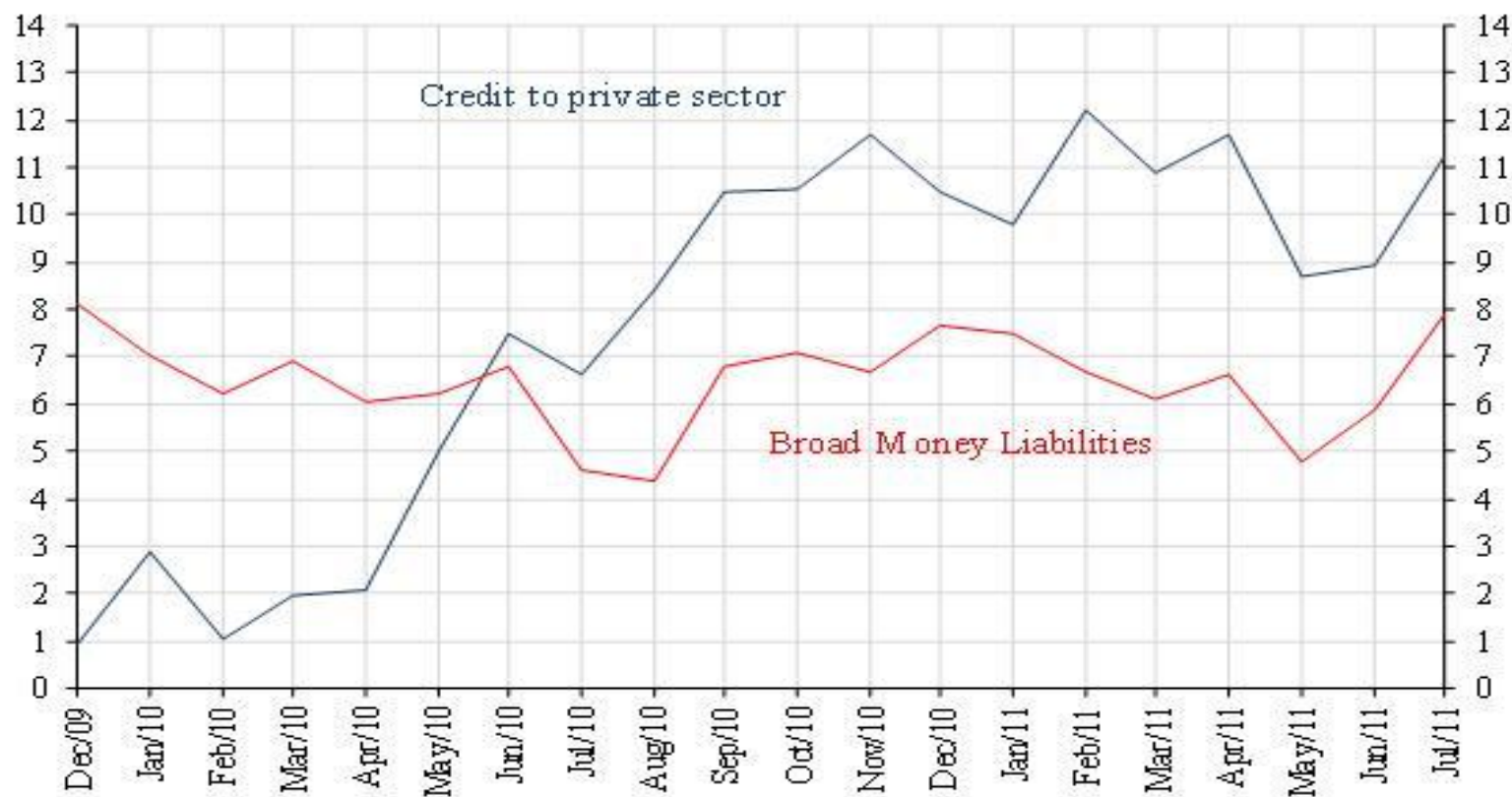
	July			January - July		
	2010	2011 <sup>1</sup>	% change	2010	2011	% change
<b>EUROPE</b>	<b>45,606</b>	<b>42,795</b>	<b>-6.2</b>	<b>332,024</b>	<b>340,227</b>	<b>2.5</b>
France	24,727	22,333	-10	166,757	172,306	3.3
Germany	3,033	3,237	7	28,112	29,802	6.0
Italy	2,449	2,523	3	32,640	30,379	-6.9
United Kingdom	8,737	7,604	-13	52,140	47,383	-9.1
<b>AFRICA</b>	<b>21,704</b>	<b>23,090</b>	<b>6.4</b>	<b>126,119</b>	<b>131,341</b>	<b>4.1</b>
Reunion	14,700	13,232	-10	67,982	68,826	1.2
South Africa	4,514	6,910	53	42,535	45,257	6.4
<b>ASIA</b>	<b>7,300</b>	<b>9,073</b>	<b>24.3</b>	<b>43,482</b>	<b>53,094</b>	<b>22.1</b>
India	4,475	5,332	19	29,239	33,954	16.1
China	639	1,580	147	4,589	7,647	66.6
<b>TOTAL</b>	<b>77,009</b>	<b>78,034</b>	<b>1.3</b>	<b>516,159</b>	<b>542,638</b>	<b>5.1</b>

<sup>1</sup> Provisional

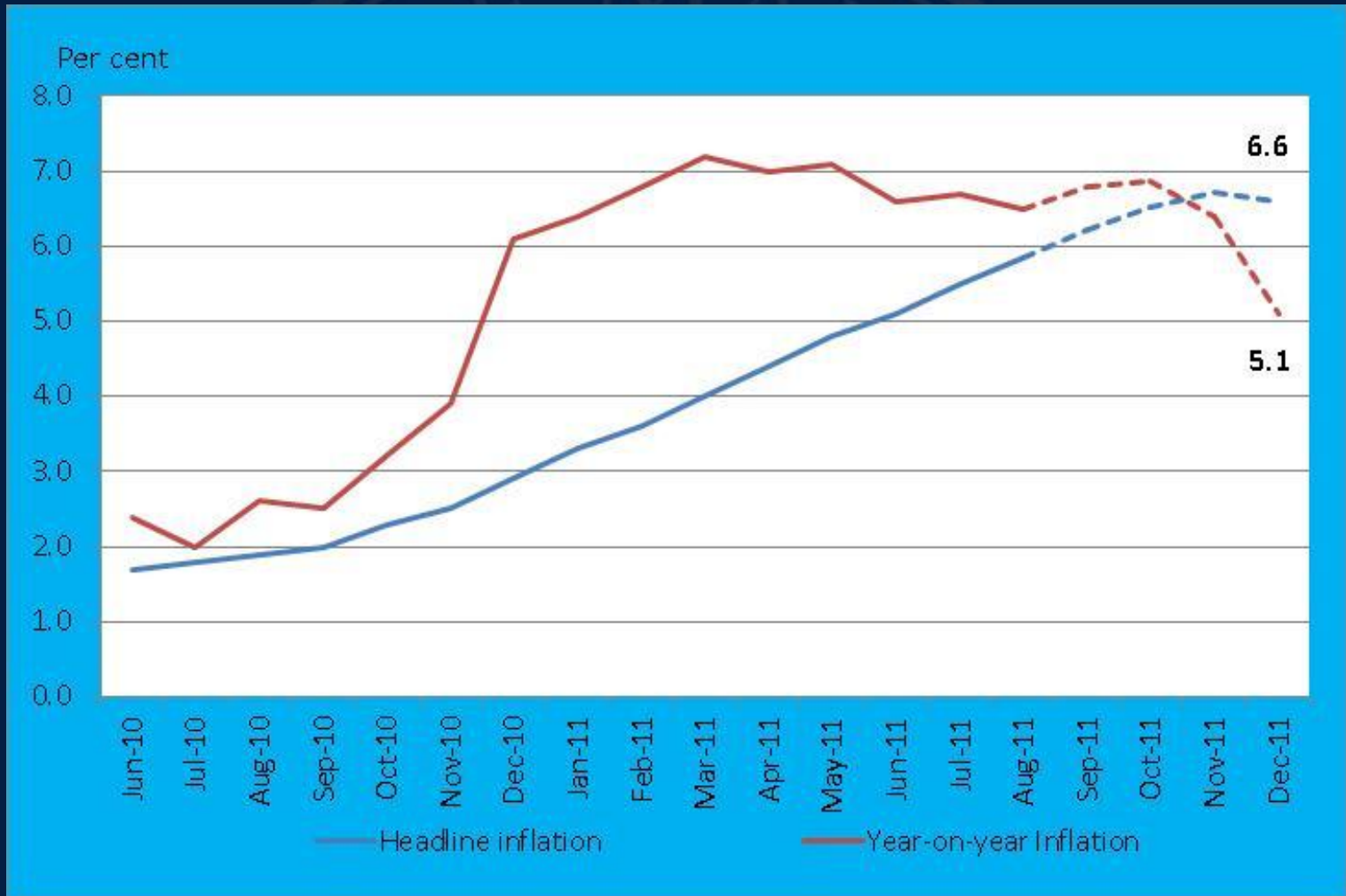
Global tourist arrivals improve by around 4.5% during the same period.

# Monetary & Credit Developments

Per cent

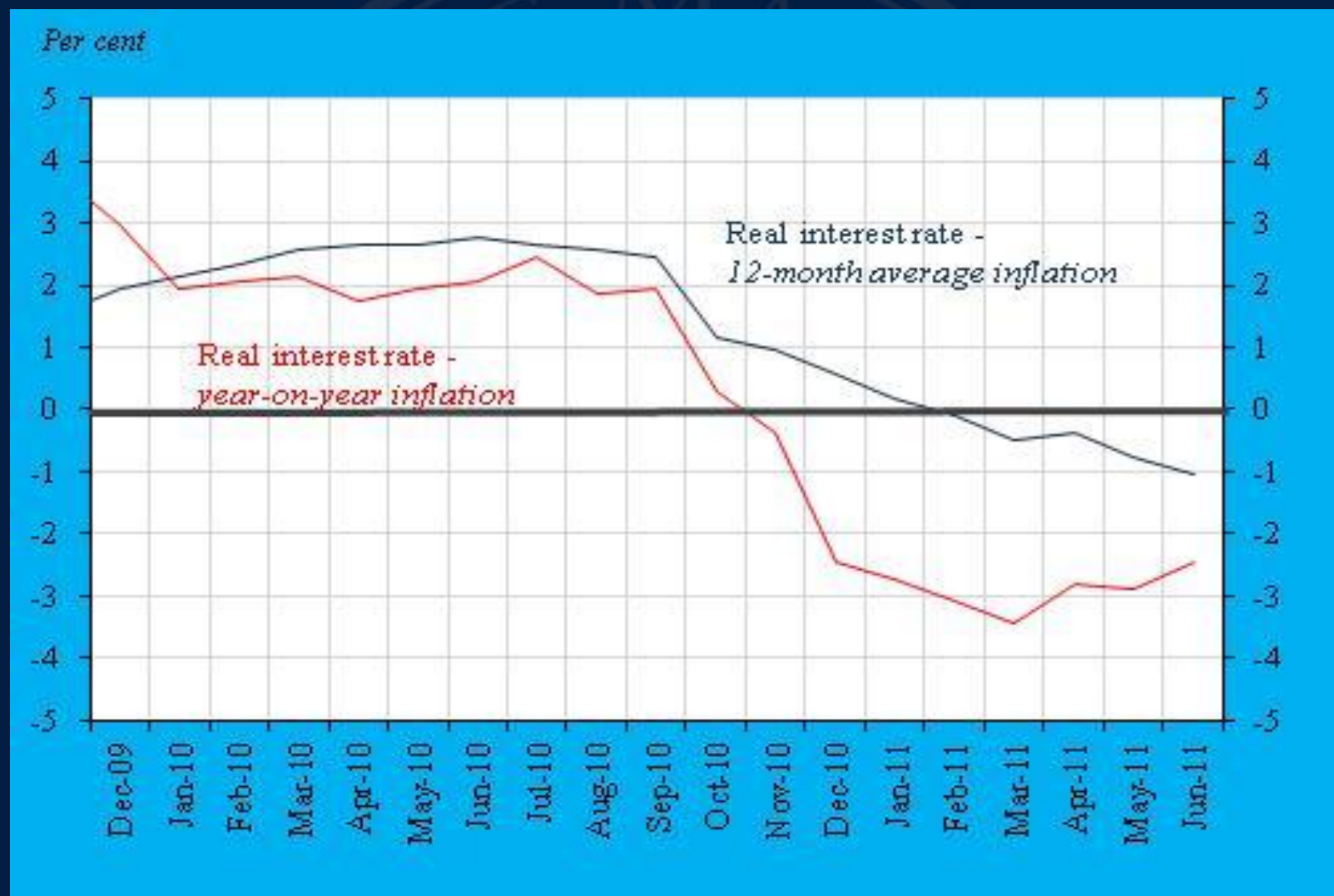


# Inflation Developments





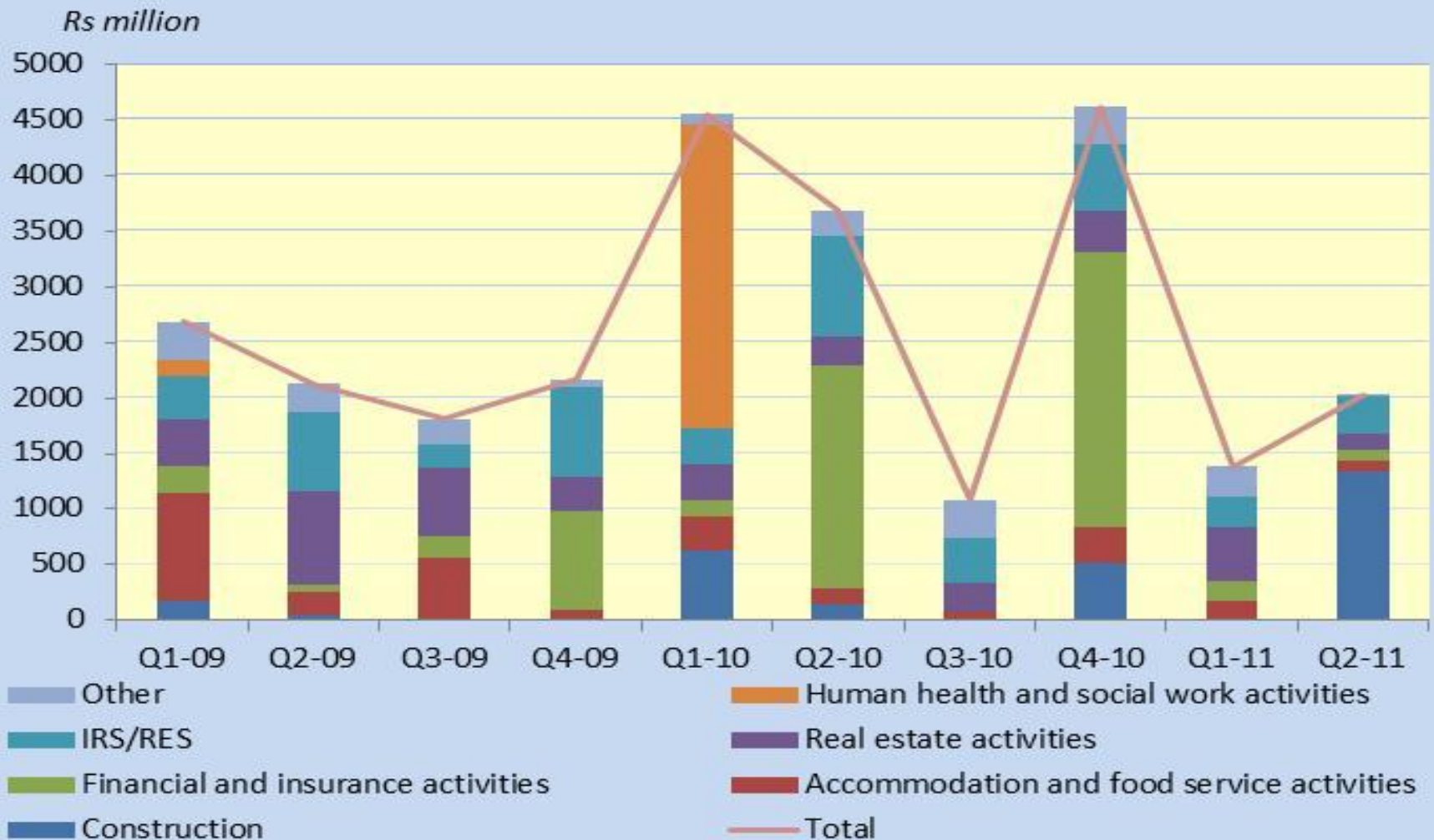
# Real Interest Rate



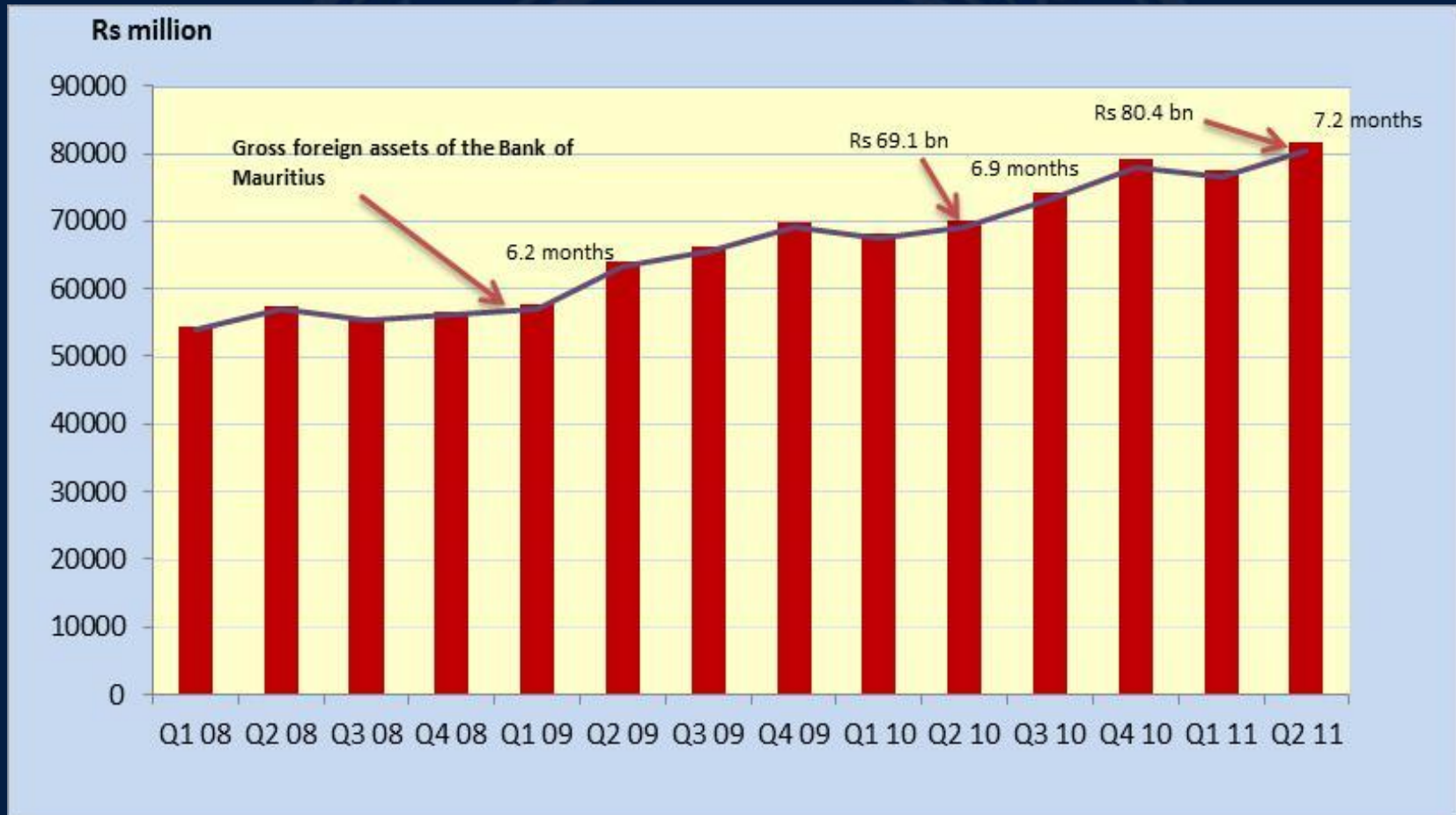
## Is Our External Position Sustainable?

- Mauritius running BoP Surpluses since 2007
- Import Cover of Gross Official Reserves estimated at 7.0 months in 2010, up from 4.9 months in 2006
- Adjusting for exceptionally large foreign direct investment (FDI) in the financial sector (Rs2 bn) and health sector (Rs2.7 bn) in first semester of 2010, FDI flows still resilient.

# Foreign Direct Investment Inflows



# Gross Official International Reserves



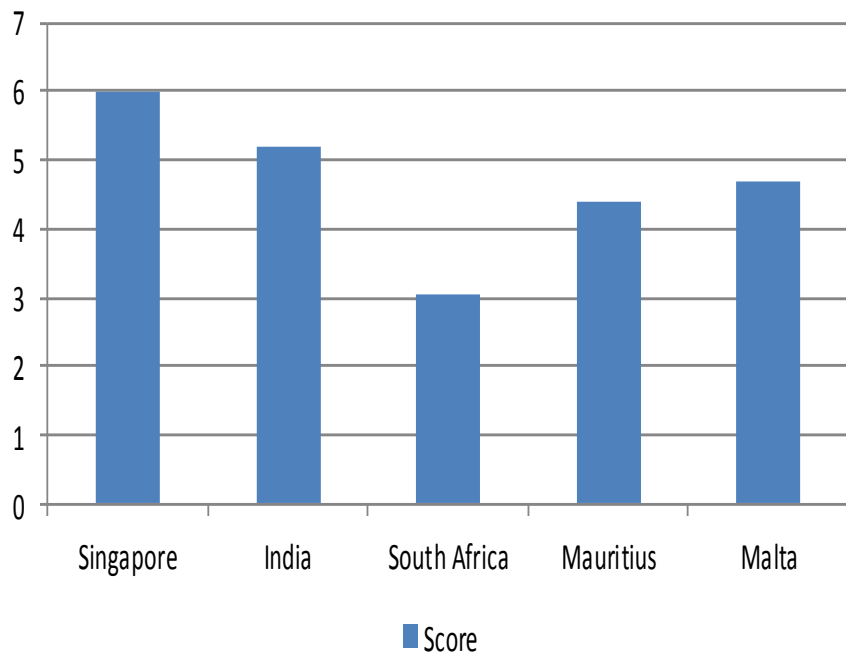
# Structural Issues



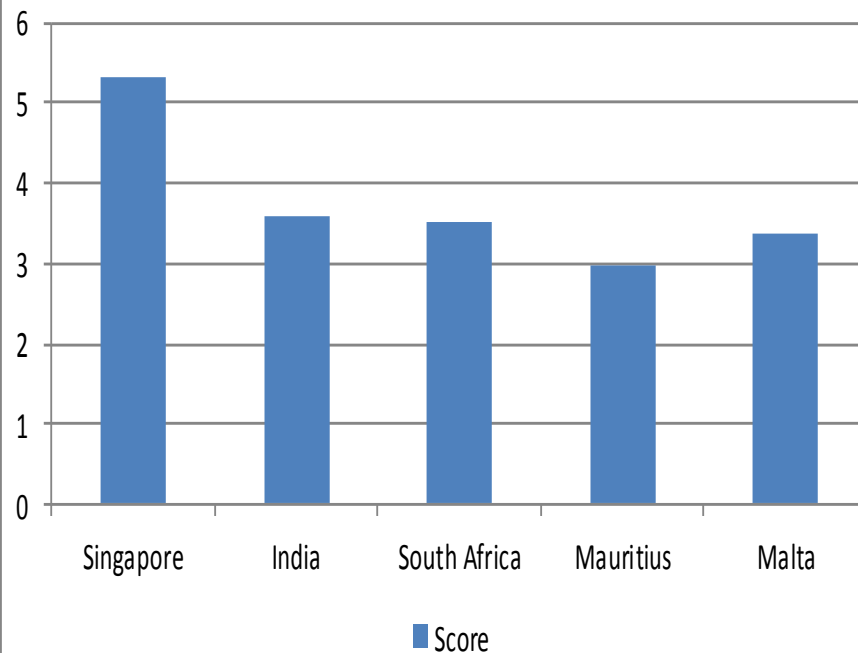
# Global Competitiveness Indicators

Mauritius ranked 54<sup>th</sup> out of 140 countries in the 2011-12 WEF Global Competitiveness Report , but 107<sup>th</sup> on Flexibility in Wage Determination and 89<sup>th</sup> on Innovation.....

## Flexibility in Wage Determination



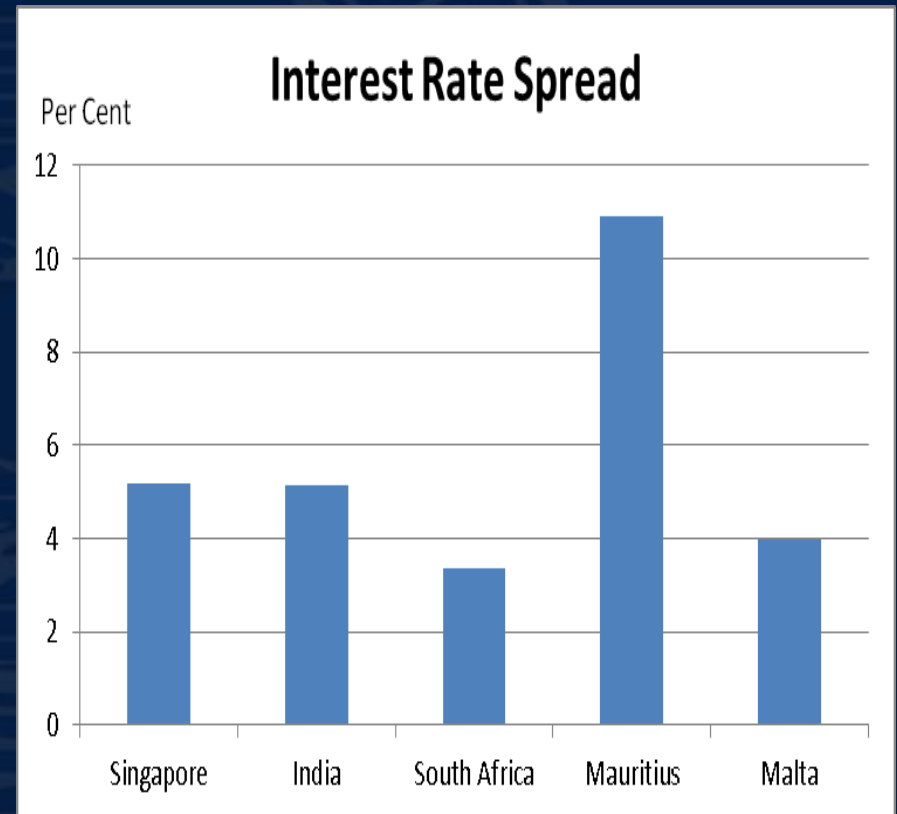
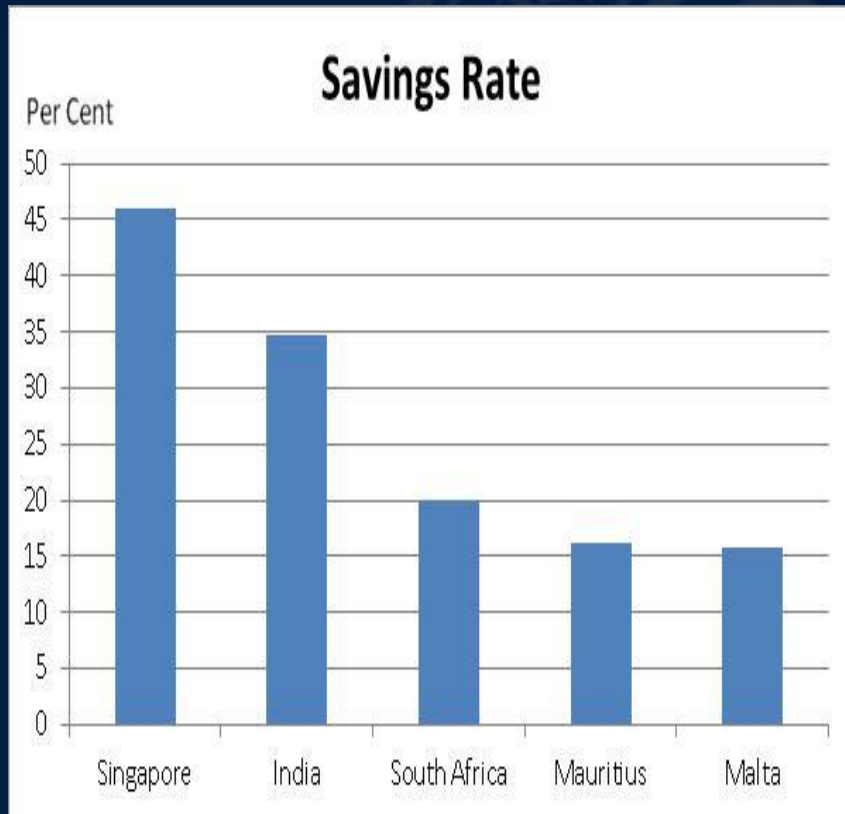
## Innovation





# Global Competitiveness Indicators

....and 98<sup>th</sup> on Savings Rate and 118<sup>th</sup> on Interest Rate Spread.



## Concluding Remarks

- Monetary Policy is a blunt instrument that cannot be used to target any particular sector of the economy.
- Against the backdrop of deterioration in global economic outlook, economy has held up quite well
- Inflationary pressures are still strong
- Enhancing transparency and quality of decision –making is a priority
- Price Observatory : Decline in prices through competition.  
Consumer education is very important
- Issues of productivity and competitiveness have to be addressed by all stakeholders  
Access to finance, adequate skills, infrastructure are main constraints to growth of firms

The background features a large, faint watermark of the Bank of Mauritius logo. The logo is circular and contains the text 'BANK OF MAURITIUS' around the top edge. In the center, there is a stylized bird, possibly a phoenix or a similar mythical creature, with its wings spread. Below the bird, there is a decorative banner or scroll.

**THANK YOU**