



BANK OF MAURITIUS

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MONETARY POLICY STATEMENT

The Monetary Policy Committee (MPC) of the Bank of Mauritius, originally scheduled to meet on 24 March 2008, convened a special meeting today to discuss developments on currency and money markets in Mauritius and abroad. The MPC decided to cut the key Repo Rate by 25 basis points, from 9.25 per cent per annum to 9.00 per cent per annum, effective 6 February 2008. The interest rate chargeable on the Standing Facility of the Bank of Mauritius is simultaneously reduced by 25 basis points, from 13.25 per cent per annum to 13.00 per cent per annum.

This special meeting of the MPC was convened against the backdrop of significant reductions in policy interest rates by major central banks. The US Federal Reserve has reduced its target for the federal funds rate by 125 basis points in January 2008. There are strong indications that the Bank of England will reduce interest rate at its next Monetary Policy Committee meeting on 7 February 2008¹. Both the US Federal Reserve and the Bank of England are likely to further cut their policy interest rates, although the outlook for the European Central Bank is less clear. The reduction in the key Repo Rate underlines the need to have interest rate differentials that are compatible with the maintenance of financial and monetary stability in Mauritius.

The MPC took note that, largely due to the recent turmoil in international financial markets, global output growth is projected to slow down to 4.1 per cent in 2008, from 4.9 per cent in 2007. The present key Repo Rate decision also seeks to mitigate the potential downside risks to growth in the Mauritian economy stemming from decelerating international growth, especially in major trading partners of Mauritius.

While the inflation rate in Mauritius has trended downwards since June 2007, declining from 10.7 per cent in June 2007 to 8.8 per cent in December 2007, there are still some upside risks from rising food and energy prices internationally. The Bank is

¹ The Bank of England reduced its policy interest rate by 25 basis points to 5.25 per cent on 7 February 2008.

concerned about the potential pass-through effects of price rises and urges economic operators involved in the import and distributive trades to exercise restraints in hiking up prices and thereby contribute to reduce pressures on the wage front. The Bank emphasises that price stability is a pre-requisite for sustainable economic development, the more so for a small open economy.

The Bank will continue to monitor economic and financial developments. The MPC is committed to price stability and orderly and balanced economic development.

Voting Pattern

The MPC was unanimous in its decision to reduce the key Repo Rate. A majority of 5-3 voted in favour of cutting the key Repo Rate by 25 basis points to 9.00 per cent per annum.

Bank of Mauritius

6 February 2008