BANK OF MAURITIUS

Released at 13.00 hours on 31 March 2008

MONETARY POLICY STATEMENT

The Monetary Policy Committee (MPC) of the Bank of Mauritius met on 24 March 2008 and reduced the key Repo Rate by 50 basis points to 8.50 per cent per annum effective same day. The interest rate chargeable on the Standing Facility of the Bank of Mauritius was simultaneously reduced by 50 basis points, from 13.00 per cent per annum to 12.50 per cent per annum.

The MPC reviewed recent international and domestic economic developments and noted that the global growth and inflation outlook had worsened since its last meeting on 6 February 2008. The financial turmoil had deepened with output growth in some major developed economies likely to stay below trend longer than initially anticipated. The MPC noted that the IMF had indicated that its January 2008 forecast of global growth of 4.1 per cent for 2008 was likely to be revised down. Inflation had been rising in many countries, driven mainly by higher food and energy prices. In the medium-term, ongoing supply constraints and robust demand from emerging markets should keep world food prices and, to a lesser extent, energy prices on the high side.

The Mauritian economy witnessed robust growth in 2007 with, however, some sectoral imbalances. Domestic macroeconomic conditions remained broadly supportive of economic growth, projected by the Central Statistics Office at around 6 per cent for 2008.

The inflation rate, which picked up to 8.9 per cent in January 2008, rose further to 9 per cent in February 2008 mainly due to higher food prices. The short-term outlook is threatened by expectations of high inflation becoming entrenched after a series of food price increases and potential second-round effects emanating from forthcoming wage developments. Looking ahead over the medium-term, the Bank projects consumer price inflation to ease.

Since the last MPC meeting, the rupee has appreciated further in nominal effective terms as a result of strong and sustained capital inflows as well as a widening interest rate differential vis-à-vis major international currencies. The MPC noted that the management of domestic monetary conditions had become complicated by these sustained capital inflows. The MPC also reiterated its concern that exchange rate gains did not appear to have been fully reflected in consumer prices.

While the view was expressed that short-term market-interest rates were negative in real terms and thus expansionary, the MPC judged that, against the backdrop of a major slowdown in the US economy which might potentially drive down other economies, the downside risks to the growth outlook of the Mauritian economy currently outweighed the upside risks to inflation.

The MPC will continue to monitor economic and financial developments and stands ready to take whatever action is necessary should the inflation outlook deteriorate. The MPC remains committed to price stability and to the promotion of orderly and balanced economic development.

Voting Pattern

The MPC voted with a majority of 6 to 2 to reduce the key Repo Rate by 50 basis points to 8.50 per cent per annum. Of the two dissenting members, one voted for a cut of 25 basis points while the other voted to leave the key Repo Rate unchanged.

Bank of Mauritius
24 March 2008