



BANK OF MAURITIUS

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MONETARY POLICY STATEMENT

The Monetary Policy Committee (MPC) of the Bank of Mauritius met on 20 June 2008 and decided to keep the key Repo Rate unchanged at 8.00 per cent per annum. The interest rate chargeable on the Special Deposits Facility, set at 100 basis points below the key Repo Rate, remains at 7.00 per cent per annum while that on the Overnight Facility, introduced at 150 basis points above the key Repo Rate, stays at 9.50 per cent per annum. The interest rate payable on the Standing Facility, at 400 basis points above the key Repo Rate, is 12.00 per cent per annum.

The MPC reviewed the latest international economic developments to assess the global outlook for growth and inflation, and noted that growth prospects remain weak while consumer inflation is picking up momentum. The US economy is fundamentally vulnerable, casting doubts on an early economic recovery. The International Monetary Fund has recently warned that US economic growth will remain sluggish in 2008 and 2009. In the Euro zone as well, growth is weakening. In the United Kingdom, downside risks to economic growth have increased while emerging Asian economies are showing clear signs of stress.

Global inflation, largely fuelled by sharp increases in food and energy prices, is expected to remain high. The G-8 Finance Ministers recently warned that high oil and food prices pose a serious problem to stable growth worldwide, have serious implications for the most vulnerable, and may increase global inflationary pressures.

Fears of an imminent recession in some of Mauritius' main export markets have receded and been replaced by the spectre of stagflation last seen in the 1970s. As consumer spending, retail sales and business sentiment weaken in Mauritius' main export markets, the contribution to output coming from net exports of goods and services would moderate. However, the fiscal stimulus stemming from the 2008-09 Budget, including the full implementation of the salary award in the public sector effective next month, would encourage private consumption which, together with robust private sector investment, could give a boost to economic activity.

With regard to price developments, headline inflation dropped from 8.9 per cent a month earlier to 8.8 per cent in May 2008 while CORE2 inflation remained flat at 5.6 per cent for the second consecutive month.

The MPC discussed issues pertaining to the sustainability of the current account deficit in the medium-term. The MPC also discussed the potential impact of the recent Pay Research Bureau (PRB) award and its second-round effects on inflation.

The view was expressed that the downside risks to the domestic economy's near-term outlook have changed slightly. While it was agreed that monetary policy was supportive of economic growth following the triple reduction in interest rates since the beginning of this year, the view was expressed that the current fiscal-monetary policy mix could accentuate the trade deficit and stoke inflationary pressures, given domestic production capacity constraints. Monetary and credit conditions remain accommodative to higher inflation as broad money liabilities and monetary base continue to expand. The view was, thus, expressed that interest rates should be hiked.

However, in its overall assessment of the growth and inflation outlook, the MPC concluded that though inflationary pressures have intensified, downside risks to economic growth remain a major concern at this juncture. The MPC recognised that the balance of risk between inflation and growth might change, which might warrant a reassessment of the monetary policy stance in due course.

The MPC will continue to monitor domestic and international economic developments and remains committed to price stability and to promote orderly and balanced economic development.

Voting Pattern

The MPC voted with a majority of 5 to 2 to keep the key Repo Rate unchanged at 8.00 per cent per annum. The two dissenting members were in favour of a rise in the key Repo Rate, with one voting for a 100 basis points and the other for a 50 basis points hike.