



Ministry of Finance and Economic Development

**Monetary Policy Committee Meeting
27 October 2014**

**Presented by Mr Patrick Yip Wang Wing,
Ag. Deputy Financial Secretary**



July MPC Meeting Decision

“Forward Guidance” approach:

“MPC foresees maintaining this monetary policy stance up to the end of this year on the assumption that headline inflation will stay at or below 4 per cent and year-on-year inflation at or below 3.5 per cent, leaving aside unexpected supply shocks.”

Since these conditions are met, there is general expectation that the MPC will maintain the KRR unchanged at today’s meeting



Global Economy

Still disappointingly weak and uneven global economic recovery

WEO October 2014 –

Forecast of 2014 global growth rate cut for the third time in a row to 3.3%

- -0.4 percentage point from April forecast
- -0.1 percentage point from July update

Forecast for 2015 revised downwards by 0.2 percentage point to 3.8%.



Global Economy ... cont'd

WEO October 2014 –

Better recovery for US and UK

BUT recession risks in Euro Area risen sharply

Euro Area growth projection cut by 0.3 percentage point to 0.8%

- Germany [1.4% growth: 0.5% point cut from July update];
- France [0.4% growth: 0.4% point cut]; and
- Italy [-0.2% growth: 0.5% point cut].

Euro Area may enter a state of secular stagnation and fall into deflation



Domestic Economy

Growth projection of 3.5% for 2014 confirmed

Gradual recovery in tourism sector

- **Europe trending upwards – UK & Germany**

Other Manufacturing and Financial Services to perform better than projected

July projection adjusted down for construction, seafood and wholesale & retail trade



Domestic Economy ... cont'd

Unemployment on downward trend from 8.6% in Q1 2013 to 7.8% in Q2 2014

For 2014, unemployment rate contained to 7.8% compared to 8% in past two years

Private investment - matter of concern

Public sector investment higher at 5.3% of GDP

Downside risks to growth outlook persist



Inflation

SM: Headline inflation projected at 3.7% in December 2014

SM projection includes its own estimates of impact of Budget measures on November and December price levels.

With Budget expected to be presented in 2015, headline inflation in 2014 would probably end up nearer to 3.5%.

Year-on-year inflation to reach around 2.8% in December 2014



Inflation ... cont'd

Inflationary pressures remained subdued in Q3

Headline inflation declined to 3.9%

Year-on-year inflation continued general downward trend from 5.6% in February to 3.3% in June and to 2.9% in September.

CORE1 and CORE2 inflation have also maintained the declining trend.



Inflation ... cont'd

IMF: price pressures expected to remain very subdued - persistent output gaps, favourable energy commodity prices, weak credit conditions, and financial fragmentation will combine to contain prices

Falling inflation expectations for year ending December 2014 (BoM August 2014 Survey): mean inflation at 4.1% as against 4.4% in last May Survey.



Inflation ... cont'd

**Expectations of lower inflation
remain well anchored**

**Developments on the inflation
front meet the MPC requirements
for keeping the KRR unchanged.**



Fiscal Policy

Progress in fiscal consolidation in 2014 being confirmed

Budget deficit and Government borrowing requirements for 2014 will be lower than initially forecast



Global Trend in Policy Interest Rate

Current monetary policy stance not indicating any rising pressure on price level

- **Most economies kept policy rate unchanged**
- **US and UK decided to defer the normalisation process**
- **advanced economies are not ready for normalisation**

IMF: prematurely normalising monetary policy, particularly in the advanced economies, should be avoided



Coordination of Macroeconomic Policies

MOU for cooperation on liquidity management and monetary policy coordination

- **Discussions and Process have reached the finalisation stage**



Coordination of Macroeconomic Policies ... cont'd

MOU will, inter alia, provide for:

- **MOFED to support BOM's endeavour to absorb excess rupee liquidity in the banking system and replace maturing Bank of Mauritius Bills by issuing Government securities and meet the cost thereof;**
- **the recapitalisation of the Bank;**
- **the setting of an inflation target for Mauritius, within a band and with a policy horizon of 2 years; and**
- **the BOM to submit a memorandum to explain deviations from the band, and the actions and path for bringing inflation back to target over the policy horizon.**



Excess Liquidity

MOFED and the BOM pursuing concerted efforts.

To recall MOFED had:

- **cancelled drawdown of last tranche of African Development Bank loan (Rs 5.2 billion);**
- **frontloaded Government borrowings;**
- **issued 5-Year Savings Bonds on a retail basis;**
- **transferred surplus cash balances from commercial banks to the Bank of Mauritius wherever feasible; and**
- **frozen proceeds from issue of Savings Bonds in a special account at the Bank of Mauritius**



Excess Liquidity... cont'd

Since the last MPC meeting, MOFED has to-date additionally agreed to:

- **issue as from 1st September, new 3-Year retail Government of Mauritius Savings Notes at fixed coupon rate of 5.25% p.a. for Rs 2 billion;**
- **raise some Rs 4 billion of Government securities of various maturities over and above Government's normal borrowing requirements to mop up high excess liquidity; and**
- **arrange for prepayment of some foreign loans.**



To summarise,

- ❑ **Headline inflation for 2014: 3.5% to 3.7%, i.e., below the 4% threshold of the ‘forward guidance’;**
- ❑ **Year-on-year inflation - around 2.8% i.e., below the 3.5% threshold figure; and**
- ❑ **Global growth outlook remains still uncertain, with increasing risks of recession in the Euro Area, our main trading partner.**



THANK YOU