



BANK OF MAURITIUS

Communiqué

Released at 18.00 hours on 26 November 2012

**The Monetary Policy Committee of the Bank of Mauritius
keeps the Key Repo Rate unchanged**

The Monetary Policy Committee (MPC) of the Bank of Mauritius has decided by majority vote to keep the Key Repo Rate unchanged at 4.90 per cent per annum at its meeting today.

The MPC noted that there are tentative signs of a bottoming in the global economy although downside risks from the euro crisis remain elevated. The Eurozone is expected to record very marginal positive growth in 2013 after emerging from recession. The UK is projected to rebound from recessionary conditions, with an expected growth of around 1 per cent. The US economy is expected to overcome its fiscal cliff and grow at around 2 per cent. Emerging economies will continue to outperform advanced economies in 2013 amid some evidence that China and other emerging Asian economies are picking up. Global inflationary pressures remain contained at this stage but commodity prices, in particular food prices, may still represent a major upside risk.

The domestic economy has withstood the external headwinds relatively well, notwithstanding the slowdown in growth dynamics and price pressures in major export sectors. The output gap remained negative, with the economy operating below trend. Projected growth for 2012 is maintained at 3.3 per cent and a preliminary Bank of Mauritius staff estimate for 2013 shows a pick-up to a range of 3.6 – 3.9 per cent as economic conditions stabilise in main trading-partner countries.

The MPC noted that year-on-year and core inflation rates have increased since the last MPC meeting. Upside risks to inflation have arisen from elevated global food prices, recent rupee depreciation, the expected impact of the PRB award, the anticipated adjustment in retail petroleum prices and recent budgetary measures. These higher risks are reflected in the Budget forecast for headline inflation of 6 per cent in 2013. The MPC noted that Bank of Mauritius staff forecast put year-on-year inflation at 5.7 per cent by December 2013 on a no-policy change basis.

The MPC discussed alternative interest rate scenarios. After a third round of voting, a majority of members voted to keep the Key Repo Rate unchanged given continuing uncertainty on the global economic outlook. Some members voted for a marginal increase in the Key Repo Rate to signal their worries over the worsening inflation outlook while anchoring inflation expectations. The MPC expressed strong concerns over a possible resurgence of inflation. It reiterated that the structural weaknesses in the economy cannot be addressed by monetary policy.

The MPC maintains strong vigilance in monitoring economic and financial developments and stands ready to meet in between its regular meetings, if the need arises.

The MPC will issue the Minutes of its meeting at 13.00 hours on Monday 10 December 2012.

Bank of Mauritius

26 November 2012