BANK OF MAURITIUS ***Communiqué***

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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 economic conditions among developed economies of export interest to Mauritius have remained fragile since the November 2012 MPC meeting: the Eurozone is expected to continue in recession in 2013, with France having a credit downgrade; the US economy is projected to record a modest expansion; and the UK, also having a credit downgrade, may be facing a triple-dip recession. Downside risks from a prolonged recession in the euro area and uncertainty about the US fiscal situation are still significant. Recovery is more robust among emerging economies. Concurrently, global inflationary pressures have remained contained although elevated commodity prices, in particular food and oil prices, still represent a major upside risk.

Domestic growth has picked up slightly as activity rebounded in some key sectors. The output gap has narrowed a little but nevertheless continues to be negative. Looking ahead, the underlying economic momentum is expected to remain positive and Bank staff forecast 2013 growth to be within a range of 3.4-3.9 per cent. However, important downside risks, stemming mainly from weak and uncertain economic conditions in main export markets, continue to weigh on the domestic growth outlook.

The MPC noted that there has been a rise to 3.6 per cent in y-o-y inflation in February 2013, from the January 2013 reading of 2.9 per cent. Upside risks to the inflation outlook persist as a result of elevated global commodity prices, the impact of the recent PRB award to the public sector, the recent increase in retail petroleum prices and the expected second-round effects of these increases, as well as the projected rise in administered prices.

On a no-policy change basis, Bank staff forecast y-o-y inflation within a range of 5.5-5.9 per cent by December 2013, equivalent to a headline inflation forecast of 4.7-4.9 per cent. Some members drew attention to the Bank's Inflation Expectations survey, carried out in February 2013, that is, before the petrol price hike, which put the mean headline inflation rates expected by respondents at 4.5, 5.0 and 5.2 per cent, respectively, for the twelve months ending June 2013, December 2013 and a year ahead.

The MPC discussed alternative interest rate scenarios and developments in monetary policy elsewhere. Taking into consideration the continued uncertainty on the global growth outlook, a majority concluded that the Key Repo Rate remained broadly appropriate at the current juncture. The other members took the view that inflationary pressures highlighted at the November 2012 MPC meeting are materialising and expressed strong concerns about the deteriorating inflation outlook. They emphasised the need to normalise rates to encourage savings while containing speculative activities in some sectors.

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 25 March 2013.

Bank of Mauritius

11 March 2013