BANK OF MAURITIUS ***Communiqué***

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The Monetary Policy Committee of the Bank of Mauritius cuts the Key Repo Rate by 25 basis points

The Monetary Policy Committee (MPC) of the Bank of Mauritius has decided by majority vote to cut the Key Repo Rate by 25 basis points to 4.65 per cent per annum at its meeting today.

The MPC noted that global economic conditions have remained weak and uneven since the March 2013 MPC meeting. While the US economy has continued to recover slowly, activity in the UK has remained lacklustre and output in the euro area has shrunk for the sixth consecutive quarter in 2013Q1, with France back in recession. Growth has slowed in a number of emerging economies as a result of persistent external headwinds. Concurrently, the global inflation outlook has been benign given significant economic slack and slower growth in commodity prices.

The domestic economy continues to be vulnerable to the subdued external environment. Economic performance has been below trend, with slow growth recorded in major export sectors despite diversification efforts, while a significant contraction has been noted in the construction sector. The output gap is projected to remain negative over the forecast horizon. Given the generally softer conditions in main trading-partner countries and lasting downside risks to the economic outlook, the Bank's growth forecast for 2013 has been revised downwards to a range of 3.2-3.7 per cent, as against a range of 3.4-3.9 per cent forecast at the previous MPC meeting.

The MPC noted that inflation indicators (headline, y-o-y and core) have remained broadly unchanged since the March 2013 MPC meeting. In addition to excess capacity in the economy, the new CPI basket may have introduced a downward substitution bias to the CPI. However, upside risks to the inflation outlook arising mainly from the public sector wage award and possible spillovers to private sector wages remain significant. The inflation expectations survey conducted in May 2013 put the mean headline inflation for December 2013 at 4.3 per cent. On a no-policy change basis, y-o-y inflation is forecast within a range of 5.3-5.8 per cent by December 2013, equivalent to headline inflation of 4.1-4.3 per cent.

The MPC discussed alternative interest rate scenarios and was divided on the risks to the growth and inflation outlook. While some members emphasised the MPC's mandate of price stability and argued for proactive action to tackle medium-term inflation, others viewed that the growth outlook had deteriorated in light of recent developments in main trading-partner countries.

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 01 July 2013.

Bank of Mauritius

17 June 2013