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 4.65 per cent per annum at its meeting today.

The MPC noted that the global economy has improved slightly since the June 2013 MPC meeting. There has been some improvement in the US economy although the outlook remains clouded by the fiscal deadlock. The UK has picked up some momentum while the euro area and Japan returned to positive growth. However, in several major emerging economies, including China and India, growth has slowed and looks unlikely to return to previous highs. Concurrently, global inflation has been broadly benign, below target inflation rates in developed economies but some emerging economies have recorded an increase in inflation as a result of depreciating currencies.

The domestic economy continues to face some headwinds from soft economic conditions in main trading-partner countries. The output gap is projected to remain slightly negative. The Committee noted that Statistics Mauritius revised its growth forecast from 3.3 per cent to 3.2 per cent for 2013. Bank of Mauritius Staff forecasts that domestic growth in 2013 will be within a range of 3.1-3.5 per cent, slightly down from the projection of 3.2-3.7 per cent, made at the previous MPC meeting.

The MPC noted that y-o-y inflation has declined sharply to 3.1 per cent in August 2013 after hovering around 3.6 per cent since February 2013, helped by muted food and fuel prices. Wage developments in excess of inflation and productivity gains continue to remain the main upside risk to inflation in the medium term. Assuming a projected impact on the CPI for Budget 2014 in line with the last two years, and on the basis of no change in the monetary policy stance, Staff forecasts y-o-y inflation to stay within a range of 4.5 per cent to 4.9 per cent by December 2013, before rising to a range of 4.9 per cent to 5.5 per cent by June 2014.

The MPC discussed alternative interest rate scenarios. A majority of members viewed that the Key Repo Rate could be maintained at its current level to continue to provide support to the economy against the backdrop of contained inflation, which they expected to remain below the Staff forecast. The remaining members, however, argued that upside inflation risks were still present. They raised serious concerns over growing vulnerabilities in the banking sector as a result of prolonged negative real interest rates and its negative impact on domestic savings. The excess liquidity prevailing in the money market and the decline in public investment at a time when private investment had dropped significantly was a cause for concern. They considered it important to rapidly normalise the Key Repo

Rate to address these vulnerabilities and offer rates of interest susceptible of changing savings and consumption behaviour.

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 14 October 2013.

Bank of Mauritius

30 September 2013