



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 unanimously decided to keep the Key Repo Rate unchanged at 4.65 per cent per annum at its meeting today.

The MPC noted that world economic activity had continued to strengthen since the April 2014 MPC meeting although the extent of the recovery is still uncertain and uneven across main trading partners. The US and UK economies are recovering relatively strongly while prospects for the Eurozone and emerging market economies remain sluggish. Global inflation has remained muted given the moderate evolution of commodity and energy prices.

The domestic economy slowed down in 2014Q1, the worst first quarter performance of the last 5 years, but is projected to improve during the second half of the year in line with improving economic conditions in main trading-partner countries. However, downside risks to the growth outlook persist. The MPC was concerned about the breakdown in the monetary policy transmission mechanism. In light of latest developments in the real economy, Staff revised downwards the growth forecast for 2014 to within a range of 3.4-3.6 per cent. Concurrently, y-o-y inflation has continued to decline, from 4.5 per cent in March 2014 to 3.3 per cent in June 2014, mainly on account of a moderation in food prices, especially fresh vegetables, and stability in energy prices.

Against a background of subdued global and domestic inflationary pressures, the MPC unanimously decided to leave the KRR unchanged. The 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 y-o-y inflation at or below 3.5 per cent, leaving aside unexpected supply shocks. Members discussed interest rate normalisation and a majority was of the view that this process needed to be started, although there was some disagreement on its pace and timing. The MPC will meet to review its stance in case of unexpected price and real sector developments. Some members took the view that the KRR would need to be raised by at least 25 basis points at the first meeting of 2015 in the aftermath of the Budget 2015. This approach is expected to reduce uncertainty among economic operators and provide them guidance on their savings, investment and consumption decisions.

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 28 July 2014.

Bank of Mauritius

14 July 2014