BANK OF MAURITIUS ***Communiqué***

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The Monetary Policy Committee of the Bank of Mauritius leaves the key Repo Rate unchanged

The Monetary Policy Committee (MPC) of the Bank of Mauritius unanimously decided to leave the key Repo Rate unchanged at 5.75 per cent per annum at its meeting today.

The MPC noted that the global economy had continued to recover. However, while there was robust growth in many emerging economies, economic recovery was gradual and uneven across advanced economies, particularly in Europe. World trade had continued to strengthen. The MPC took note of the recent financial market concerns about high public debt levels and large budget deficits in several European economies, which led policy-makers to envisage the withdrawal of fiscal stimulus - a step which could depress demand and undermine the global economic recovery.

Inflation has remained subdued in most advanced economies but has risen in emerging and developing economies. Potential inflationary pressures stem from higher international energy and commodity prices. The MPC noted that the interest rate cycle had turned in several countries. However, in some advanced economies, the accommodative monetary policy stance was expected to be maintained for a longer period than had initially been thought.

The MPC discussed recent developments in export markets and assessed the risks to domestic growth prospects. Weaker than expected recovery in the Euro area and the United Kingdom had dimmed prospects of a faster growth in the outward-looking sectors of the economy in 2010. Downside risks to the domestic short-term growth outlook have increased slightly. Economic growth is now expected to be around 4.1 per cent in 2010, as against 4.6 per cent forecast in March. Furthermore, real economic activity could stay below potential over the next few quarters, mainly on account of weakening export demand.

Inflation in the first half of 2010 remained low, in line with the Bank's projections. The MPC noted that inflation had bottomed. Over the next few quarters, the inflation rate could reach 4 per cent, slightly below its historical average. Further ahead, upward risks arise from higher imported inflation as the global recovery gathers pace. Domestic wage awards and the expected change in the wage-setting mechanism potentially represent domestically-generated sources of inflation, if not managed properly.

The MPC was concerned about the difficult export environment created by the unusual volatility of the exchange rate of the US dollar and the euro. This raised a range of very real sectoral concerns that impact on the economic health of the country and that need to be addressed by tailor-made measures which fall beyond the scope of monetary policy.

The MPC discussed alternative interest rate scenarios on the basis of its assessment of the inflation and growth outlook. It concluded that the current stance of monetary policy remains appropriate.

The MPC will issue a Monetary Policy Statement at 13.00 hours on Tuesday 29 June 2010.

Bank of Mauritius
22 June 2010